

## Economics Group

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# Consumer Prices Pick Up in December on Higher Energy Costs

*Consumer prices rose 0.3 percent in December, bringing the year-ago rate of inflation up to 1.5 percent. Rising shelter costs continue to underpin core price growth, but elsewhere price growth remains tepid.*

### Rising Gasoline Prices Fuel Increase in CPI

Consumer prices rose 0.3 percent in December, the largest monthly gain since June. As expected, a rise in energy costs was the primary driver of higher price gains. Prices for energy goods snapped a two-month string of declines. The largest contributor to the rise in energy was an increase in gas prices. Typically gas prices fall in December, so the 0.7 percent rise in non-seasonally adjusted terms during the month led to an even larger rise of 3.1 percent in seasonally adjusted terms. Compared to a year earlier, gasoline prices are down 1.0 percent.

Food prices remained tame, edging up 0.1 percent. Prices for food are up only 0.4 percent over the past the year, the smallest 12-month increase since mid-2010. In contrast, food away from home has climbed 2.1 percent higher as an improving consumer picture has allowed restaurants and other dining out establishments to raise prices.

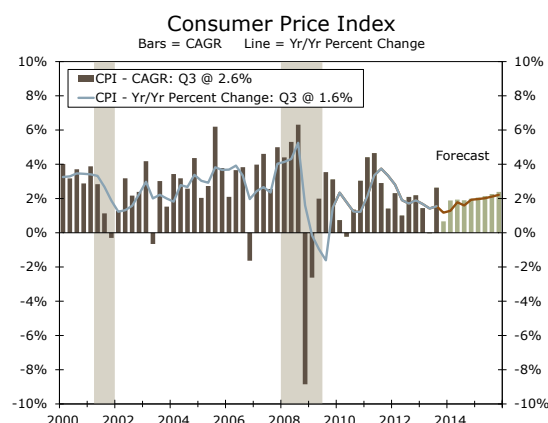
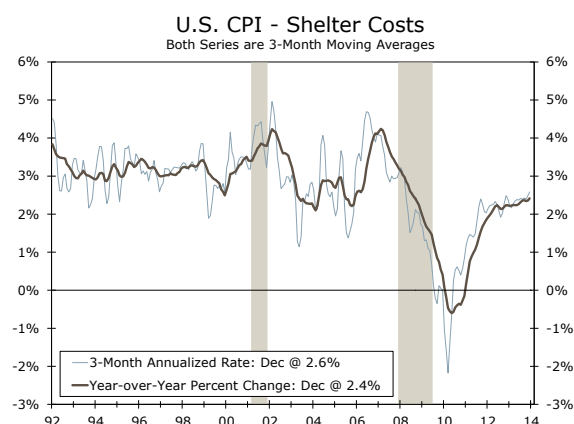
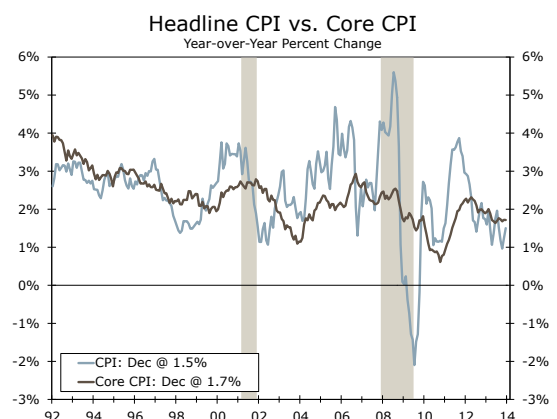
### Increase in Core Prices Underpinned by Rising Housing Costs

Excluding food and energy, price changes remained rather tepid. Core prices ticked up 0.1 percent in December, keeping the year-ago increase steady at 1.7 percent. Shelter costs continue to underpin the rise in core prices. Owners' equivalent rent, which comprises nearly a quarter of the CPI basket, rose 0.2 percent in December and has been outpacing broader core growth since May. Rent growth also remains strong, up 0.3 percent last month and 2.9 percent over the past year. Other notable increases in December included apparel, up 0.9 percent after three months of declines, and tobacco products, up 0.6 percent.

Elsewhere core prices were more muted. The cost of medical care was flat over the month as the largest recorded monthly drop in prescription drug costs (down 0.9 percent) offset rising costs for services at physician's offices and hospitals. The cost for transport services fell 0.4 percent, mostly due to a 4.7 percent decline in airline fares. Prices for recreation, household furnishings and used cars and trucks also fell.

### Consumer Price Growth Set to Run Low Again in 2014

Although firming energy prices are beginning to offer some support to inflation, the pace of price growth remains relatively weak. The year-over-year pace of CPI growth has now been 2.0 percent or less for 14 consecutive months, the longest streak since the throes of the recession in 2008-2009. Low inflation looks set to continue in 2014, even as the economy picks up. Prices for imported consumer goods have been flat or fallen in seven of the past eight months, which should keep downward pressure on the CPI in coming months. We look for the pace of CPI growth to gradually pick up throughout the year, rising to around a 1.9 percent year-over-year pace in the fourth quarter.



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