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## February Consumer Price Index: More Action In The Details Than The Headlines

- The total CPI was up 0.1 percent (0.100 percent unrounded) in February, with the core CPI up 0.1 percent (0.118 percent unrounded).
- On a year-over-year basis, the total CPI was up by 1.1 percent and the core CPI was up by 1.6 percent.

The total and the core CPI each rose by 0.1 percent in February, for over-the-year increases of 1.1 percent and 1.6 percent, respectively. Sure, it may be tempting to look at these numbers and conclude February is simply another chapter of the same story – little evidence of inflation anywhere on the horizon. In reality, though, there is more action in the underlying details of the February CPI report than the headline numbers suggest, with the obvious caveat that the bar for what constitutes "action" for an economist is set considerably below that for an actual normal person.

Food and energy prices posted sizeable gains in February, but offsetting these gains were smaller increases in rents than seen over the past several months, another decline in apparel prices, and a decline in the transportation component of the CPI. Food prices rose by 0.4 percent, the largest monthly gain since January 2011, led by a 0.5 percent increase in prices for food consumed at home while prices for food consumed away from home rose by 0.3 percent. Weather induced distortions, including the drought in California, and short supplies of beef have helped push food prices higher, though some restaurant chains are trying to hold the line on price increases and instead are seeing margins compress. It could be, however, that we see food prices rise at a similar rate for several months to come as it will take some time for supply to catch up with demand for many food items.

Total transportation costs fell by 0.4 percent in February, the second consecutive monthly decline. Prices for new motor vehicles were flat while used vehicle prices fell. The biggest factor here is the reported 1.7 percent decline in seasonally adjusted retail gasoline prices. Unadjusted pump prices did rise in February, but the 1.1 percent increase was smaller than normal for the month so the seasonal adjustment factors in effect overcompensated for this. As seen in the final chart opposite, gasoline prices have not been behaving in their normal manner over the past year. A normal year sees gasoline prices rise sharply over the first few months of the year then level off during the summer and fall before dropping over the final few months. As seen in the chart, pump prices defied these typical seasonal patterns in 2013 and have continued to do so thus far in 2014. The implication for the CPI is that, since the seasonal adjustment factors are "trained" to correct for the normal seasonal patterns, they will correct for price increases not occurring over the first part of the year so the reported gains in the seasonally adjusted CPI will be artificially held down over the first half of the year, as was the case in 2013.

With harsh winter weather persisting through the first half of the month keeping demand elevated, home heating costs jumped again in February, though the 1.1 percent increase in the household energy component was less than half the 2.6 percent gain posted in January.

Prices for core goods and core services remain on divergent paths. Core goods prices have declined on an over-the-year basis for ten consecutive months, whereas prices for core services continue to rise at a better than two percent pace, with the net result being a moderate read on the overall core CPI. With global commodity prices remaining weak, still elevated degrees of productive slack in the global economy, and the U.S. dollar likely to strengthen over the course of 2014 as the Fed phases out QE-3, core goods prices are likely to decline further which will help moderate overall core inflation.

Though there is plenty going on beneath the surface, the reality is we are unlikely to see headline, or core, inflation change much over coming months, rendering it a nonfactor for the Fed over the course of 2014.

