

Economic Analysis

# Core Inflation Hits Four-Year High in January

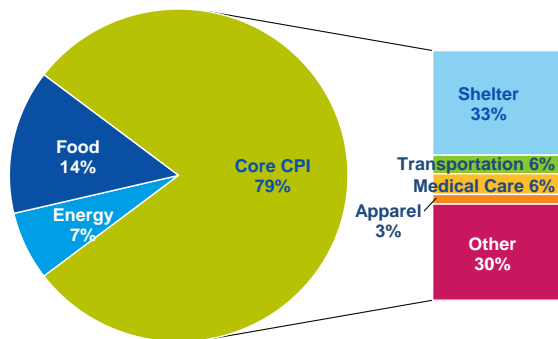
Amanda Augustine / Kim Chase

- **Headline CPI was unchanged, pulled down by another sharp -2.8% drop in energy prices**
- **Core CPI had the highest MoM gain since August 2011 (0.3%) while also reaching a 4-year high of 2.2% YoY**
- **Oil price declines are expected to weigh on headline inflation at least through 2H16**

January's CPI readings came in a bit higher than expected at both the headline and core levels. Although consensus called for a decline, headline CPI remained unchanged MoM and was up 1.34% YoY—its highest YoY increase in over a year. The only major CPI index that experienced a MoM decline in January was the energy index, down 2.8% MoM, as prices of energy commodities and services continued to tumble. Food prices, which were unchanged for the month, also played a part in holding back headline CPI. Food at home was down 0.2% MoM, driven largely by a price decline in the meat, poultry, fish and egg category. After the price of eggs skyrocketed last year due to the impact of the avian flu, it appears that supply has returned back to normal, as egg prices plunged 8.4% MoM in January—the largest monthly decline since 2010.

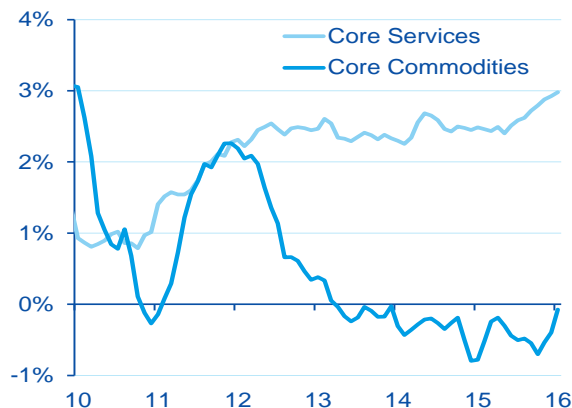
The core index is really the shining star of this report, with MoM increases across all major core commodity and service readings. Core CPI was up 0.3% MoM in January—its highest MoM gain since August 2011—and 2.2% YoY—the highest YoY gain since June 2012. With a 0.3% MoM rise, core services had a slight edge over commodities, which were up 0.2% MoM. The increase in core commodities prices was the first monthly gain after eight consecutive months of declines. Apparel prices rose higher than any other category in January (0.6% MoM), while the prices of used cars and trucks had the lowest gain of the core readings, with 0.1% MoM rise.

Chart 1  
**CPI: Relative Importance (%)**



Source: BLS, BEA & BBVA Research

Chart 2  
**Core CPI Indexes (YoY % Change)**



Source: BLS & BBVA Research

This CPI release tops off a week of mostly optimistic data releases—a solid decline in jobless claims, a surge in industrial production, and an increase in multi-family building permits. January's core CPI reading appears to be part of a rising inflation trend that has been steadily building for the past year. Overall, the economy seems to be back on its feet, pointing to the possibility of future rate hikes. This may not be enough for a March rate increase, but if the trend continues, we could still see an announcement from the Fed by mid-year. Still, we expect that oil prices will continue to weigh on headline inflation at least throughout the first half of this year.

**DISCLAIMER**

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research U.S. on behalf of itself and its affiliated companies (each BBVA Group Company) for distribution in the United States and the rest of the world and is provided for information purposes only. Within the US, BBVA operates primarily through its subsidiary Compass Bank. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document have been gathered or obtained from public sources, believed to be correct by the Company concerning their accuracy, completeness, and/or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.