

U.S. Inflation Flash

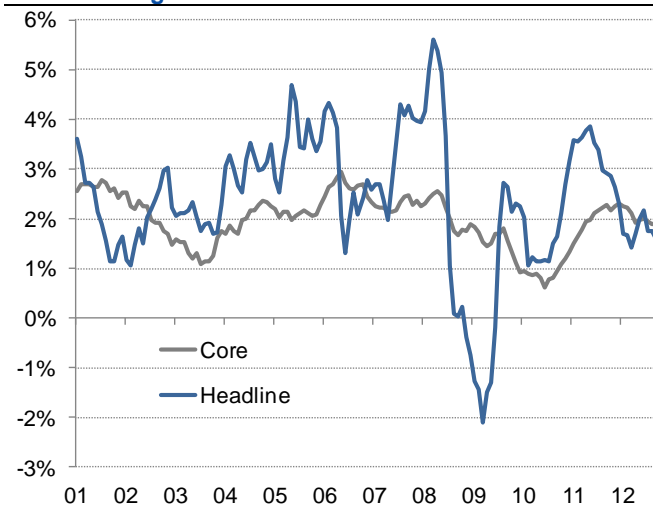
Headline Inflation Flat but Core Levels Emerge Stronger

- **Headline inflation registered no change in January, though core price jumped 0.3%**
- **Energy prices continued their descent, down 1.7% following a 0.8% drop in December**
- **BLS seasonal adjustments help to explain some of the mixed data for the month**

Consumer prices remained relatively unchanged at the headline level in January, though core inflation rose more than expected. The headline consumer price index (CPI) emerged relatively flat as energy prices continued to fall, somewhat surprisingly given the month's jump in crude oil prices. Energy prices declined 1.7% in January after falling 0.8% in December and 3.43% in November, driven mostly by a sharp 3.0% decline in gasoline prices that conflicts with the 3.2% and 7.3% gains in Brent and WTI oil prices, respectively. Much of this difference can be attributed to the BLS' seasonal factor adjustments for 2013 which likely injected some artificial changes that did not fully reflect the month's actual changes in prices. Still, we expect the CPI drop in gas prices to be short-lived as prices at the pump in February have been rising quickly throughout the month and will surely put upward pressure on the energy component for the next report. At the headline level, prices were up 1.6% on a YoY basis in January, a decline from December's figure of 1.8%.

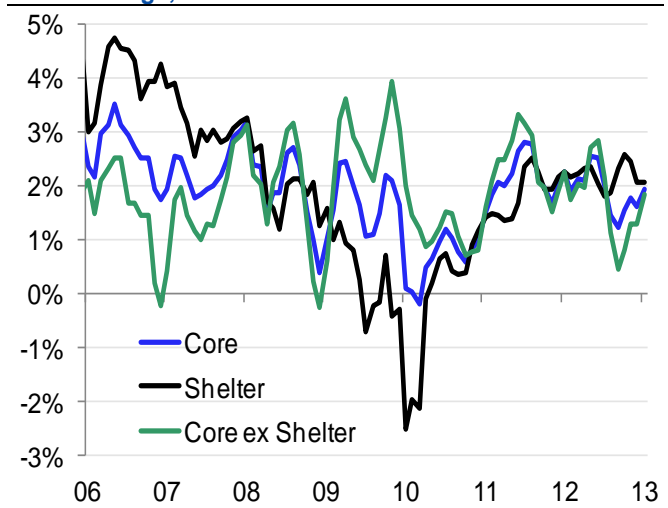
The more interesting figure was the core price level which rose 0.3% on strong shelter and apparel prices for January. Shelter costs, which account for a large portion of the core CPI figure, continued to rise, climbing by 0.2% for the month. The apparel category also increased at a faster pace, up 0.8% after a smaller 0.1% the month before. In terms of other gainers, medical care commodities rose after declining the month before and the used car and truck category also recovered from a previous drop in prices. Although some of the movements this month have been affected by the BLS adjustments, CPI was mostly on par with our estimates and should continue to remain soft with energy prices continuing to put some modest pressure as shelter prices push upward. As inflation levels remain soft the Fed's policy continues to be viable and should remain accommodative for the time being.

Chart 1
Consumer Price Inflation
YoY % Change



Source: Bureau of Labor Statistics & BBVA Research

Chart 2
Core Inflation and Shelter Prices
3m % Change, Annualized



Source: Bureau of Labor Statistics & BBVA Research

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