

ECONOMIC NEWS

United States: Inflation Continues to Slow

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HIGHLIGHTS

- ▶ The US Consumer Price Index (CPI) edged down 0.1% in December following a 0.1% increase in November and a 0.4% advance in October. It's the first meaningful monthly decline since the spring of 2020.
- ▶ Energy prices fell 4.5%, with gasoline down 9.4% and fuel oil lower by 16.6%. Food prices rose 0.3%, the smallest monthly increase since April 2021.
- ▶ The index for all items less food and energy was up 0.3% in December following gains of 0.2% in November and 0.3% in October.
- ▶ The 12-month change in the all items index continued to decline, from 7.1% to 6.5%. The 12-month change in the all items less food and energy index also slowed, from 6.0% to 5.7%.
- ▶ Headline inflation averaged 8.0% in 2022 compared to 4.7% in 2021, while core inflation averaged 6.2% versus 3.6% in 2021.

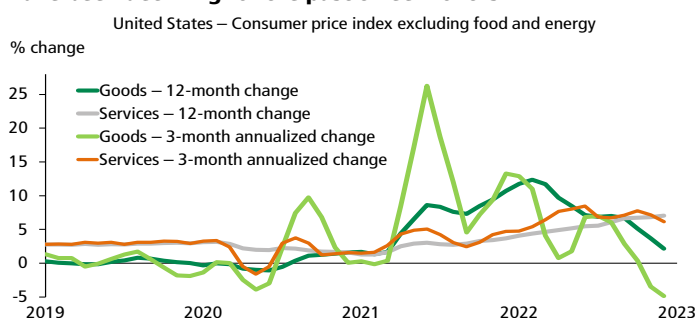
COMMENTS

Inflation continued its recent downward trend last month. Annual inflation ended the year at 6.5%, down considerably from its 9.1% peak in June 2022. Hopefully this trend will continue in the new year.

Prices have moderated considerably on the goods side. Prices for goods excluding food and energy fell for the third straight month. The 12-month change now stands at 2.1%, compared to 12.4% in February 2022. Global supply chains have improved, transportation costs are down and manufacturing pressures have generally eased, so goods inflation should continue to cool. We could start to see the same thing with food prices.

GRAPH

Most price gains are on the services side, while goods prices have been declining for the past three months



Sources: U.S. Census Bureau and Desjardins Economic Studies

But the situation remains more challenging on the services side. Services excluding energy were up 0.5% month-over-month, reflecting significant price pressure. They also continued to rise on a year-over-year basis in December, coming in at 7%. Shelter costs are one of the components that continue to put pressure on core inflation. They were up 0.8% month-over-month and 7.6% year-over-year in December.

IMPLICATIONS

US inflation continues to moderate, but price pressures appear to be easing more for goods than for services. Given the resilient labour market and sticky service prices, the Fed will need to keep tightening monetary policy at its upcoming meetings.