

ECONOMIC NEWS

United States: Inflation Dips Slightly Even as Gas Prices Tick Up

By Francis Généreux, Principal Economist

HIGHLIGHTS

- ▶ The US consumer price index (CPI) increased 0.5% in January after edging up 0.1% in December (revised from -0.1%). That's the largest monthly CPI increase since October.
- ▶ Energy prices rose 2.0%, including a spike in gasoline (+2.4%) and natural gas (+6.7%) prices. Food prices increased 0.5%.
- ▶ Core CPI, which strips out food and energy, rose 0.4% in January, a repeat of December.
- ▶ The 12-month change in the all items index continued to decline, from 6.5% to 6.4%. The 12-month change in the all items less food and energy index also slowed, from 5.7% to 5.6%.

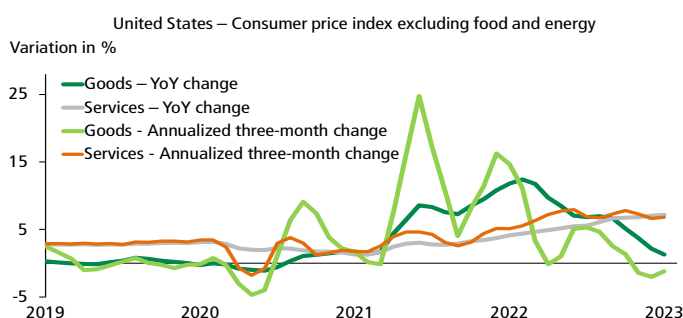
COMMENTS

Despite a few bumps in January, including a sharp jump in pump prices and the cost of some food items (eggs were up 8.5% over one month), the 12-month change in prices continued to slow. Inflation now stands at 6.4%, the lowest it's been since October 2021.

Stripping out food and energy, a monthly increase of 0.4% still seems high. To get back to an annual inflation rate of 2%, we need to see a much slower monthly figure, somewhere just under 0.2%. We still have a long way to go. However, the discrepancy between goods and services prices is increasingly glaring. Excluding food and energy, goods prices were up 0.1% in January, but on the heels of three consecutive months of decreases. The three-month change in prices for January was still negative (-1.2% annualized). That's due to a combination of easing supply chain pressures, lower transportation costs, a general slowdown in manufacturing and declining demand for some goods. On the services side, the situation remains more complicated and price increases are proving stickier. We haven't seen the one-month change drop below 0.5% since July 2022,

GRAPH

Services inflation remains stubbornly high



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

and the three-month change stood at 6.8% (annualized) in January. Housing cost pressures are still high (the CPI shelter component rose 0.8% in January for a 12-month change of 8.6%), but some indicators suggest we may see a turnaround in 2023.

IMPLICATIONS

Although inflation was down again in January, it's falling at a slower rate than in recent months. We're also seeing some stickiness in non-food and energy prices, mostly coming from the services side. Combined with a staggeringly strong labour market, inflation remains enough of a concern for the Fed to keep notching up interest rates.