

January 16, 2015



## UNITED STATES

### Gas prices bring inflation down, boost confidence

#### HIGHLIGHTS

- Industrial output retreated 0.1% in December after surging 1.3% in November. Manufacturing output increased 0.3% on the heels of a 1.3% rise. Activity in the mining sector jumped 2.2%, while energy production tumbled 7.3% following November's 4.2% rise. For 2014 as a whole, industrial production rose 4.3% after gaining 2.9% in 2013.
- The consumer price index (CPI) fell 0.4% in December after declining 0.3% in November. Energy prices were down 4.7%, driven by the 9.4% decline in gas prices. The core index, which excludes food and energy, was steady after going up 0.1% in November. The total CPI's annual change retreated from 1.3% to 0.8%, while core inflation went from 1.7% to 1.6%. For 2014 as a whole (annual average), total inflation is 1.6%. Core inflation is 1.7%.
- Consumer confidence improved again in January according to the preliminary version of the University of Michigan index, going from 93.6 to 98.2, its highest level since January 2004.

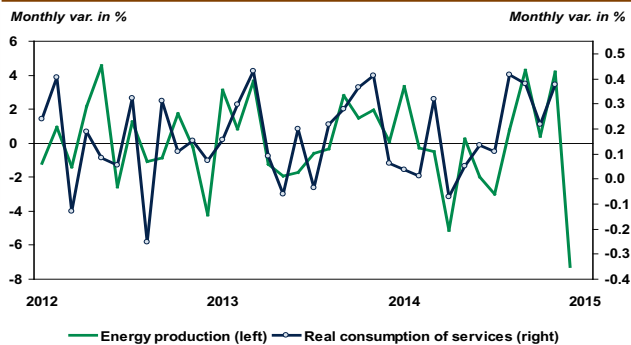
#### COMMENTS

The contraction in industrial output does not come as a surprise, given that December's unusually warm weather (after a fairly cold November) suggested a pullback in energy production. Manufacturing continued to grow, despite a drop in the auto sector. Metallurgy and electronics did particularly well. The mining sector jumped, but we are starting to see monthly declines in drilling for gas and oil wells.

The slide in the total CPI is in line with expectations, but the core index's stability is a little more surprising, given that a slight increase was forecast. Prices for clothing and motor vehicles have declined.

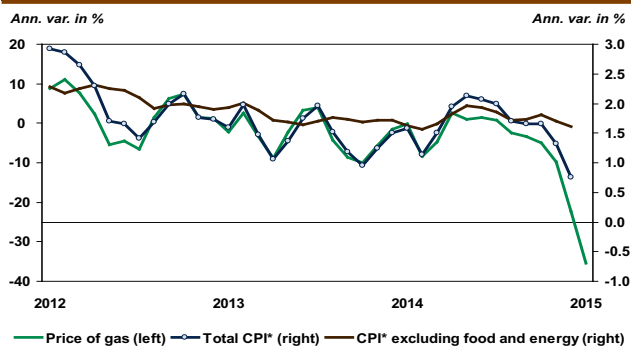
**Implications:** The drop in gas prices should take inflation into negative territory in the next few months, but it is also providing for a good improvement in consumer confidence. The latter suggests that December's weak retail sales were only a passing phenomenon and that consumption will

#### The collapse by energy production points to a pullback in real consumption of services in December



Sources: Federal Reserve Board, Bureau of Economic Analysis and Desjardins, Economic Studies

#### Tumbling gas prices will take total inflation into negative territory shortly



\* Consumer price index.

Sources: Energy Information Administration, Bureau of Labor Statistics and Desjardins, Economic Studies

strengthen. However, the tumble in energy output points to a substantial drop in consumption of services in December. It is expected to rebound in January.

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