

U.S. Data Review

- CPI: brisk increase in core driven by pressure in service inflation

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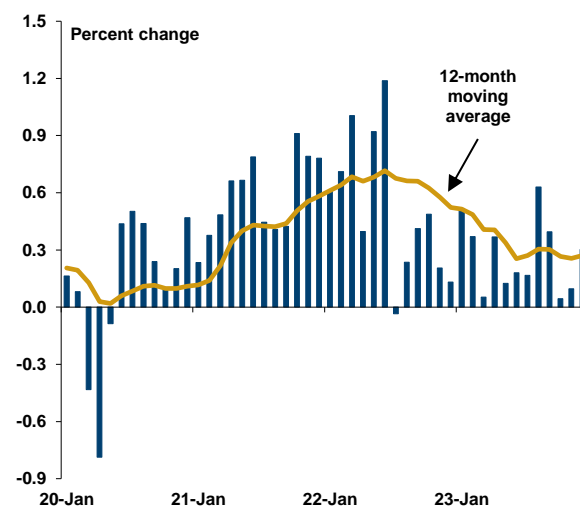
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December CPI

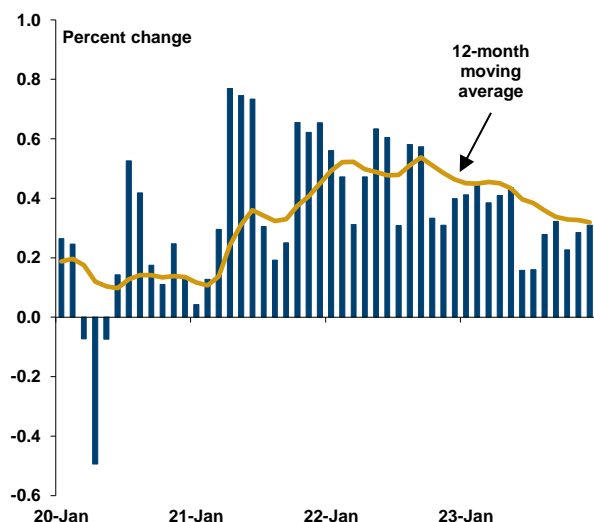
- The headline CPI rose 0.3 percent in December, a result matched by the core component (0.303 percent and 0.309 percent, respectively, with less rounding; chart on headline, right). The advance in the headline CPI was 0.1 percentage point faster than the consensus expectation, while the core reading matched the consensus view. The year-over-year increase in the headline index accelerated to 3.352 percent in December from 3.137 percent in the prior month; the year-over-year change in the core CPI slowed, easing to 3.930 percent from 4.007 percent in November. The latest results underscore that significant progress has been made in subduing rapid underlying price pressure, but that restrictive monetary policy will be required well into 2024 before Fed officials are convinced that inflation is on a sustainable path back to the two-percent target. Moreover, ongoing firm increases in certain key areas (housing costs, core service costs excluding housing, etc.) suggest that additional improvement in inflation is likely to be nonlinear and possibly slow to develop.

Headline CPI



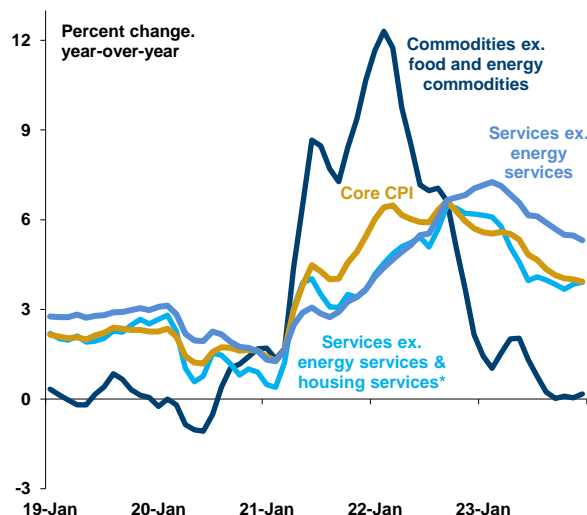
Source: Bureau of Labor Statistics via Haver Analytics

Core CPI



Source: Bureau of Labor Statistics via Haver Analytics

Core CPI

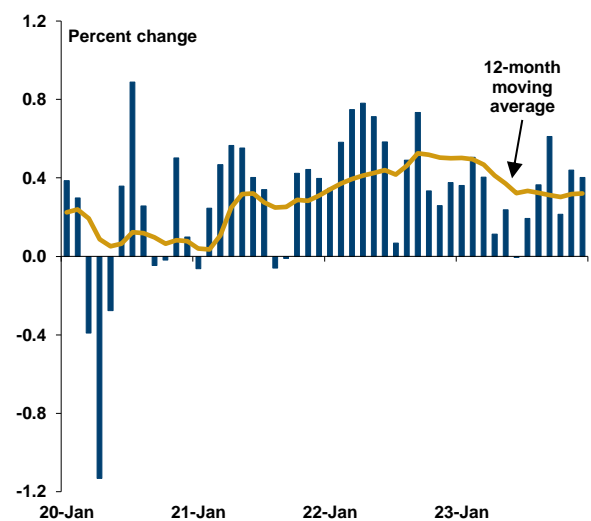


* Service prices excluding energy services, rent of primary residence, and owners' equivalent rent components.

Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America

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- The energy component increased 0.4 percent in December, following drops of 2.3 percent in November and 2.5 percent in October. Energy prices fell 2.0 percent on a year-over-year basis versus -5.4 percent in November. In the latest month, gasoline prices increased 0.2 percent – an insignificant change after a plunge of 10.7 percent combined in the previous two months. Prices of energy services advanced for the fifth consecutive month (+0.9 percent in December after a jump of 1.7 percent in November). In the latest month, a jump of 1.3 percent in electricity prices was only partially offset by a dip of 0.4 percent in the costs of natural gas service.
- Food prices rose 0.2 percent in December, matching average in the first 11 months of 2023. Recent price increases contrast to the average monthly advance of 0.8 percent in 2022, with the deceleration clearly signaling that the previous brisk inflation in food prices has passed. The current year-over-year increase of 2.7 percent slowed from 2.9 percent in November and is well below the cycle peak of 11.4 percent in August 2022.
- In December, the increase of 0.3 percent in the core CPI essentially matched the average in the previous 12 months (chart, previous page, bottom left). Core goods prices were flat (down fractionally with less rounding -0.003 percent) – the seventh consecutive monthly reading showing a decline or no change. Core goods prices rose 0.2 percent on a year-over-year basis, with the steady slowing from the cycle peak of 12.3 percent in February 2022 suggesting that the previous pandemic-related spike in demand and supply-chain disruptions that spurred a surge in goods prices has passed (chart, previous page, bottom right). Core service prices rose 0.4 percent, a firm increase that translated to a year-over-year advance of 5.3 percent (chart, previous page, bottom right). Housing costs again factored importantly into the increase, with the rent of primary residence component advancing 0.4 percent and owners' equivalent rent jumping 0.5 percent (year-over-year changes of 6.5 percent and 6.3 percent, respectively, slowing from 6.9 percent and 6.7 percent). Core service prices excluding rents and OER rose 0.4 percent for the second consecutive month continuing a pattern of marked month-to-month volatility that has tilted to the firm side (chart). The year-over-year change is well below the recent peak of 6.5 percent in September 2022, but the latest change of 3.9 percent was a tick faster than the November reading. Progress in super-core inflation has stalled, with year-over-year growth hovering in the four-percent range since the summer (see chart on year-over-year changes in core).

CPI: Core Services Ex. Housing*


* Service prices excluding energy services, rent of primary residence, and owners' equivalent rent components.

Sources: Bureau of Labor Statistics via Haver Analytics; Daiwa Capital Markets America