

U.S. Core Inflation Plumbs 6-Year Low

The U.S. consumer price index was unchanged in February, held down by a dip in gasoline prices, subdued food costs and muted overall cost pressures. The yearly rate plunged to a three-month low of 2.1% from 2.6%. The core measure rose a tame 0.1%, retracing its first decrease in 27 years and allowing the yearly rate to drop three-tenths to 1.3%, its lowest level since early 2004. A further decline in core inflation is likely given the benign 0.1% and 0.8% annualized rates in the past three and six months, respectively. Clothing fell 0.7%, and was flat on the year. Recreation eased slightly in the month and by 1% in the past year. Because of high apartment vacancy rates, tenants haven't seen a rent increase on primary residences in eight months. Offsetting these declines was a second-straight 0.5% advance in medical care costs (3.6% y/y). As well, used vehicle prices continued to climb briskly (0.7% m/m, 14.2% y/y), as cost-conscious consumers shied away from the new vehicle market, where prices have generally gone into reverse in recent months.

(seasonally adjusted)	(month/month % change)			(% change : a.r.)	
	Feb	Jan	Dec	6-month	12-month
All Items	0.0	0.2	0.2	1.9	2.1
Ex. Food & Energy	0.1	-0.1	0.1	0.8	1.3
Food	0.1	0.2	0.1	1.0	-0.2
Energy	-0.5	2.8	0.8	13.5	14.4
Clothing	-0.7	-0.1	0.4	-1.3	0.0
Transportation	-0.1	1.3	0.7	10.4	11.8
New Vehicles	0.1	-0.5	-0.2	3.3	3.5
Gasoline	-1.4	4.4	2.3	20.0	36.8
Medical Care	0.5	0.5	0.1	4.2	3.6
Recreation	-0.1	-0.1	-0.3	-2.1	-1.0
Education	0.5	0.3	0.4	4.0	4.7
Owners' Equiv. Rent	0.0	-0.1	0.0	-0.6	0.3

The Bottom Line: Although rising commodity prices might keep the headline rate aloft, high unemployment and falling unit labour costs point to further disinflation in the core measure. The February CPI report supports the Fed's view that inflation "is likely to be subdued for some time", which will weigh towards keeping policy rates on hold for a while even as the economy regains its footing.

Sal Guatieri, 416-359-5295