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## February Consumer Price Index: No Alarm In February CPI Data

- > The total CPI rose 0.2 percent (0.150 percent unrounded) in February; the core CPI was up 0.2 percent (0.182 percent unrounded)
- > On a year-over-year basis, the total CPI was up 2.2 percent and the core CPI was up 1.8 percent in February

Okay, fine, but just wait until next month . . . That will be the rallying cry for those who have been sounding the inflation alarm bell in the wake of January data showing wages and prices rising more than had been expected, spinning one month of data that was, for anyone who cared to look at the details, significantly skewed by seasonal adjustment noise, into a narrative of an overheating economy. As expected, however, the February data on wages and prices tell a different tale. For instance, the total CPI rose by 0.2 percent in February, matching the consensus forecast but ahead, even if just barely, of our forecast of a 0.1 percent increase, while the core CPI was up 0.2 percent as expected. On a year-over-year basis, the total CPI is up 2.2 percent and the core CPI is up 1.8 percent. For those intent on clinging to the tale of an overheating economy sparking inflation pressures, the March CPI data will be just what the doctor ordered. Well, maybe not the doctor, but at least what that "can you hear me now guy" ordered – recall that it was last March when plummeting prices for cell phone service dragged the CPI and the PCE deflator down with them. That will lead to outsized increases in year-on-year measures of inflation in the March data, which in turn will be convenient fodder for anyone intent on spinning tales of an overheating economy.

For now, though, we'll focus on the February data, and the increase in the headline CPI really came down to rounding – we took our forecast of a 0.148 percent increase and shaded it lower, but the 0.15005 percent unrounded increase printed at 0.2 percent. In our weekly *Economic Preview*, we noted that in keeping with the odd seasonal patterns seen in apparel prices in recent years, we expected a large but not as large as in January increase in apparel prices. As it turns out, the 1.5 percent increase in February was larger than we expected and just short of the 1.7 percent increase posted in January. But, if the odd seasonal patterns hold, apparel prices will fall over the remainder of the year – even with the hefty increases in both January and February, apparel prices are up only 0.4 percent year-on-year. And, even with the outsized increase in apparel prices, core goods prices were flat in February, leaving them down 0.5 percent year-on-year, the 57<sup>th</sup> time in the last 59 months core goods prices were down year-on-year.

As we expected, gasoline was a drag on the headline CPI in February; while pump prices were up 1.6 percent on a not seasonally adjusted basis, this was a smaller increase than was anticipated by the seasonal adjustment factors, so the seasonally adjusted data show gasoline prices down 0.9 percent. Food prices were flat, as lower prices for food consumed at home were negated by higher prices at restaurants. After strong gains in December and January, medical care prices fell by 0.1 percent in February, thus extending the string of puzzling behavior in this series.

Rents surprised us in the February data, as market rents posted only a 0.2 percent increase which, in the unrounded data, is the smallest increase since February 2014. We have been looking for rent growth to slow over the course of 2018, but only gradually as rents are somewhat "sticky," particularly as measured in the CPI data as concessions that lower effective rents are not always adequately captured. At the same time, owners' equivalent rents were also up just 0.2 percent which, in the unrounded data, is the smallest increase since December 2014 – given a prolonged period of robust house price appreciation, this category continues to surprise us to the downside. Ex-shelter core inflation came in at 0.9 percent in February – that is the year-on-year change, not the monthly change – still somewhat anemic but nonetheless the fastest pace since last March. As our bottom chart shows, ex-shelter core inflation is picking up pace, but at less than 1.0 percent does not suggest anything resembling an overheating economy.

The February CPI report is the last read on inflation the FOMC will see prior to their March 20-21 meeting, and in and of itself is hardly grounds for ratcheting up the inflation rhetoric, let alone the dots. That could well come later in 2018, but probably not just yet.

