ECONOMIC UPDATE

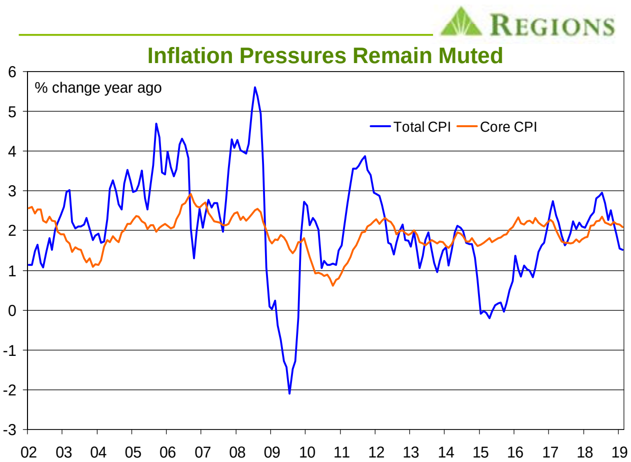
REGIONS

March 12, 2019

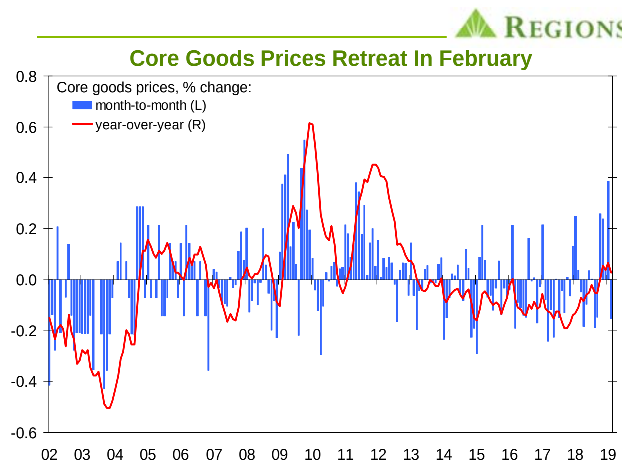
February Consumer Price Index: Inflation Pressures Remain Muted

- The total CPI rose by 0.2 percent (0.174 percent unrounded) in February; the core CPI rose by 0.1 percent (0.110 percent unrounded)
- On a year-over-year basis, the total CPI was up 1.5 percent and the core CPI was up 2.1 percent in February

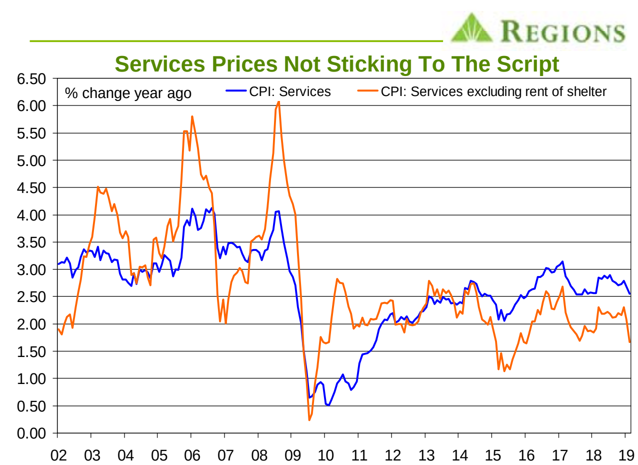
The total CPI rose by 0.2 percent, matching what we and the consensus expected, while the core CPI was up 0.1 percent, falling short of the 0.2 percent increase we and the consensus expected. On an over-the-year basis, the total CPI is up 1.5 percent and the core CPI is up 2.1 percent. While gasoline has transitioned from being a drag on to being a driver of headline inflation, core inflation continues to gently decelerate, though it is unlikely that the declines in medical care costs and used car prices that held down the core CPI in February will be repeated over coming months. All in all, however, our view on inflation remains intact – inflation lacks clear direction and is unlikely to muster enough upward momentum over the course of 2019 to alarm the FOMC. Instead, inflation is likely to remain tame enough to afford the FOMC the option of a patient pause, which is the policy stance incorporated into our baseline 2019 forecast.



The broad energy index was up by 0.4 percent in February but nonetheless down 5.0 percent year-on-year. Unadjusted retail gasoline prices were up slightly more than is typical for the month of February, which left seasonally adjusted prices up 1.5 percent for the month, but retail pump prices are still down 9.1 percent year-on-year. While prices for home heating fuels posted stronger gains in February, electricity and piped gas prices fell further, thus holding down the increase in the broad energy index. Food prices posted a surprisingly large increase in February, with prices for food consumed at home and prices for food consumed away from home both up 0.4 percent. This is the largest monthly increase in prices for food consumed at home since last February, and continues a pattern of above-trend price increases in February in recent years on a seasonally adjusted basis. So, while the 1.2 percent year-on-year increase in prices for food consumed at home is the largest such increase since April 2015, it remains to be seen whether this pace will be sustained over coming months. Overall food prices are up 2.0 percent year-on-year.



Apparel prices were up 0.3 percent in February, smaller than our forecast anticipated but, as we've often noted, there is a good deal of seasonal adjustment noise in apparel prices in January and February of any given year, and the broad apparel category is down 0.8 percent year-on-year. Prices for infants' & toddlers' apparel were up 2.4 percent in February and stand 4.7 percent higher year-on-year, as apparently infants and toddlers are less likely to haggle over prices than their adult counterparts. New motor vehicle prices were down 0.2 percent and used motor vehicle prices were down a sharper 0.7 percent in February, acting as a weight on the core CPI. The broad index of medical care costs dropped by 0.2 percent in February, the largest monthly decline (unrounded) since October 1971 which, in highly technical terms, is a really, really long time ago. Prices for prescription drugs fell by 1.0 percent, leaving them down 1.2 percent year-on-year. Prices for medical care services were flat in February, breaking a string of moderate increases. One string that has not yet been broken is the string of months in which we continue to be confused over the behavior of medical care costs. As we suspected would be the case, core goods prices retreated in February, with a 0.2 percent decline ending a modest run of four consecutive monthly increases. Still, on an over-the-year basis, core goods prices were marginally higher, and we look for this to remain the case over coming months. Medical care costs only partly explain why prices for services excluding shelter were flat in February after being trivially lower in January. As seen in our bottom chart, this led to a sharp deceleration in year-on-year growth in this index, falling from 2.1 percent in January to 1.7 percent in February. While this likely overstates the case, it is nonetheless interesting that the deceleration ex-shelter services inflation bucks the premise that service providers have greater latitude to pass along higher labor costs in the form of higher retail prices, so this index will be interesting to watch over coming months.



Inflation pressures remain muted, affording the FOMC room to sit back and wait for a more coherent picture of the U.S. economy to emerge from the data, which have been all over the map of late. This could be the case for the next several months.

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