

# **U.S. Inflation Monitor**

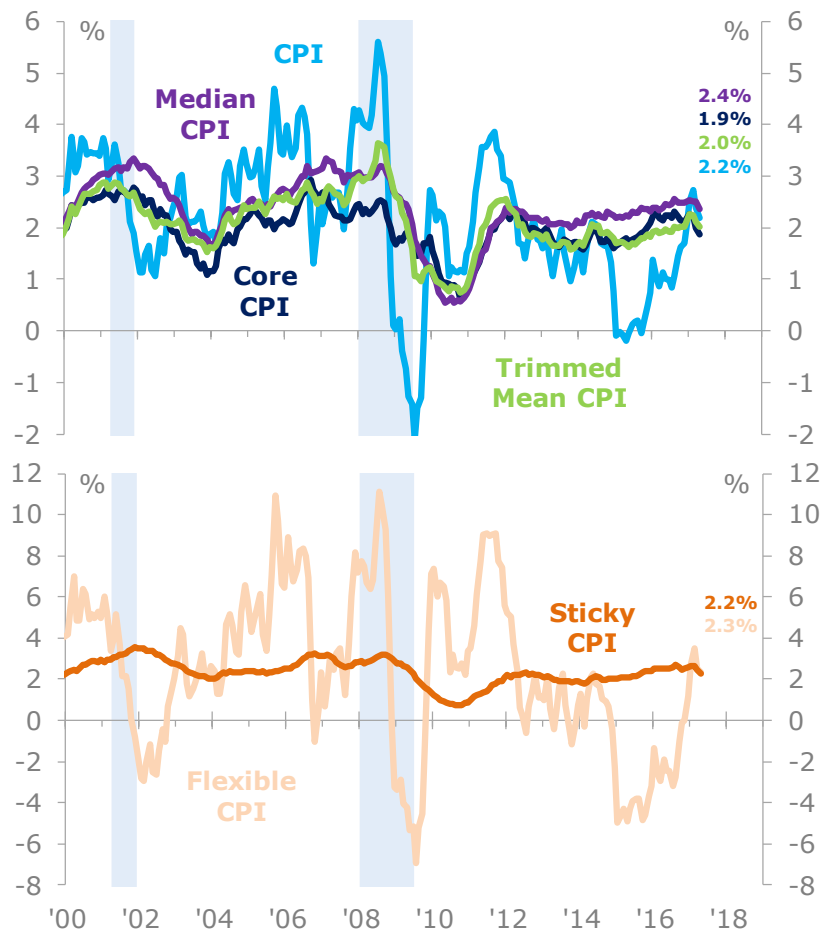
May 12, 2017

**FLOATINGPATH**

# Where's The Inflation

## Annual Inflation In Broad Consumer Prices Ticked Down In April To 2.2%...

U.S. Consumer Price Index YoY



Source: Floating Path, Bureau of Labor Statistics

## ...Core Inflation Has Fallen Back Below 2.0%, And Trimmed CPI Is Only Slightly Above 2.0%

U.S. Consumer Price Index

Category	Δ YoY (%)	CPI Weight (%)	Δ YoY Contr. (%)
<b>Total CPI</b>	<b>2.20</b>	<b>100.0</b>	<b>2.20</b>
<b>Food</b>	<b>0.53</b>	<b>13.7</b>	<b>0.07</b>
Food At Home	-0.76	7.9	-0.06
Food Away	2.35	5.8	0.14
<b>Energy</b>	<b>9.27</b>	<b>7.3</b>	<b>0.63</b>
Commodities	14.51	3.7	0.48
Services	4.42	3.6	0.16
<b>Core</b>	<b>1.88</b>	<b>79.0</b>	<b>1.49</b>
Goods	-0.61	19.1	-0.12
Services	2.71	59.9	1.61
<b>Median CPI</b>	<b>2.37</b>		
<b>Trimmed CPI</b>	<b>2.02</b>		
<b>Flexible CPI</b>	<b>2.31</b>		
<b>Sticky CPI</b>	<b>2.24</b>		

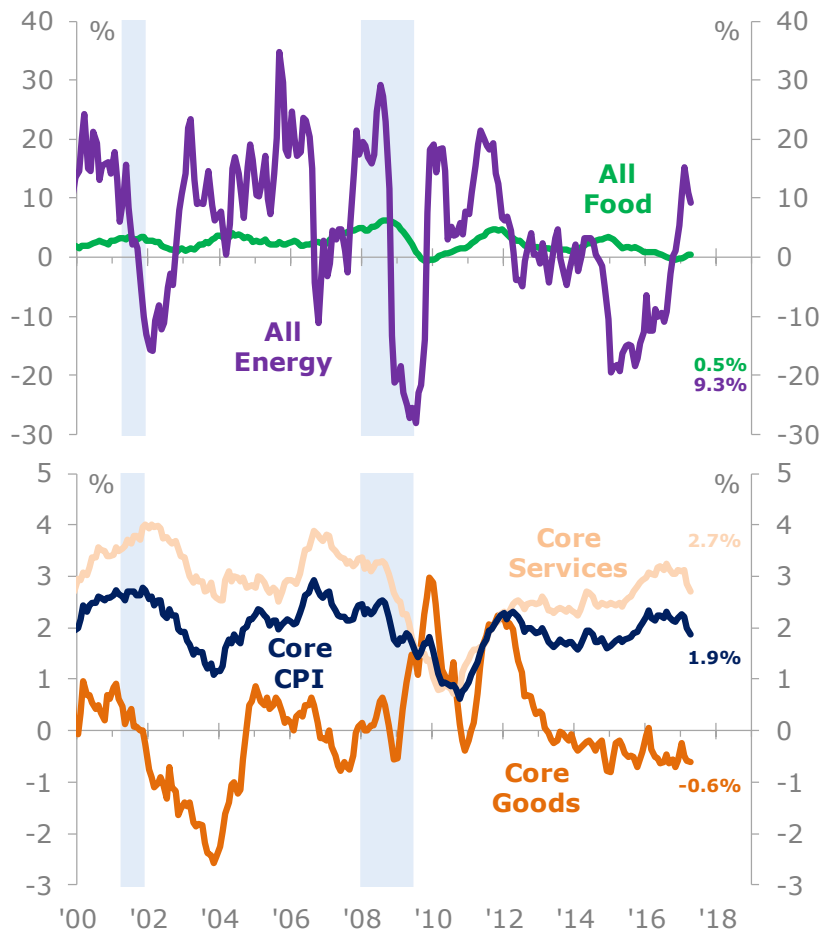
Unlike the headline CPI from the BLS, which calculates a weighted average of all prices, the Cleveland Fed's Median CPI looks at the median price change of items in the CPI basket. The Trimmed-Mean (16%) CPI removes the highest 8% and lowest 8% of items from the CPI basket. The Atlanta Fed reports the Flexible and Sticky CPI, which aggregate select CPI components that are especially responsive or unresponsive to economic conditions.

Source: Floating Path, Bureau of Labor Statistics

# Core Services The Primary Driver

## Consumer Prices For Core Goods Continue To Deflate...

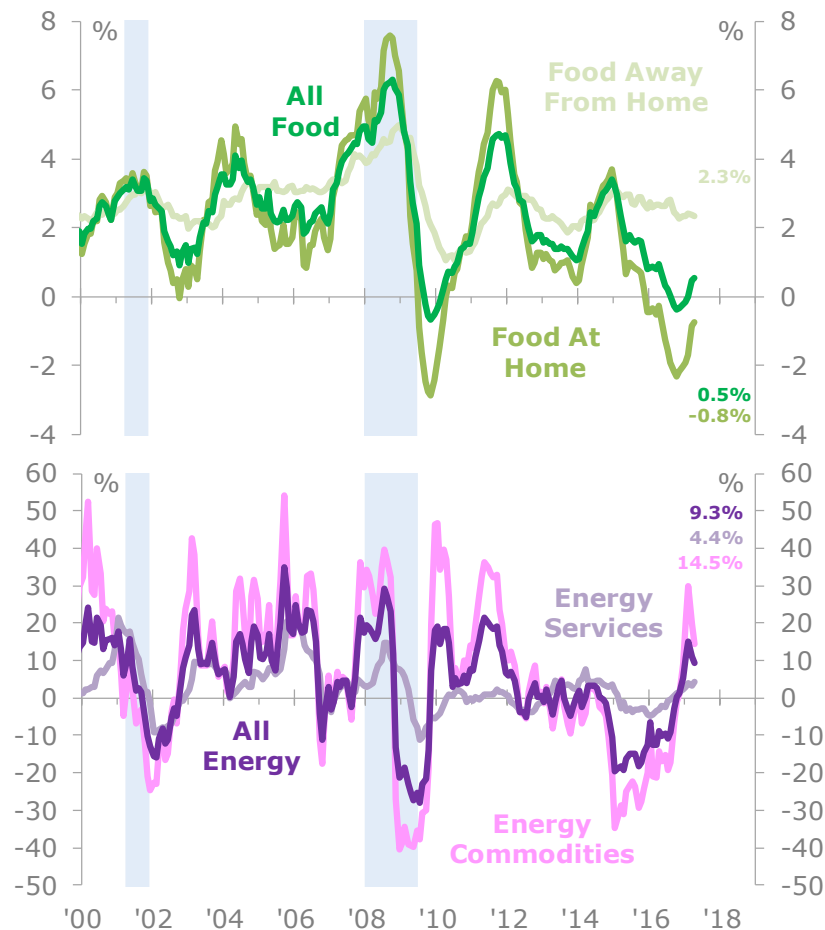
U.S. Consumer Price Index YoY



Source: Floating Path, Bureau of Labor Statistics

## ...Food Prices Are Up 0.5% From A Year Ago While Energy Prices Are Up 9.3%

U.S. Consumer Price Index YoY

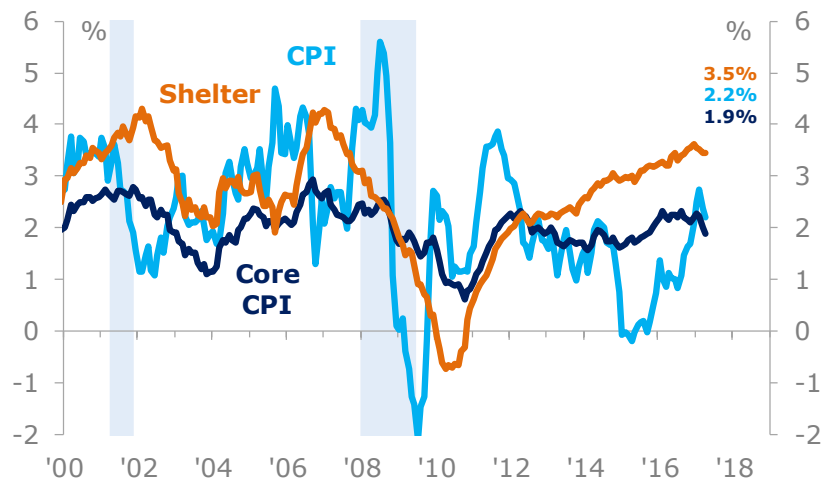


Source: Floating Path, Bureau of Labor Statistics

# All About Shelter Inflation

## Shelter Price Inflation Has Been Rapid, And Accounts For 33.6% Of The Total CPI...

U.S. Consumer Price Index YoY



Source: Floating Path, Bureau of Labor Statistics

## ...Core Services Have Been The Primary Inflation Driver Over The Past Year

U.S. Consumer Price Index

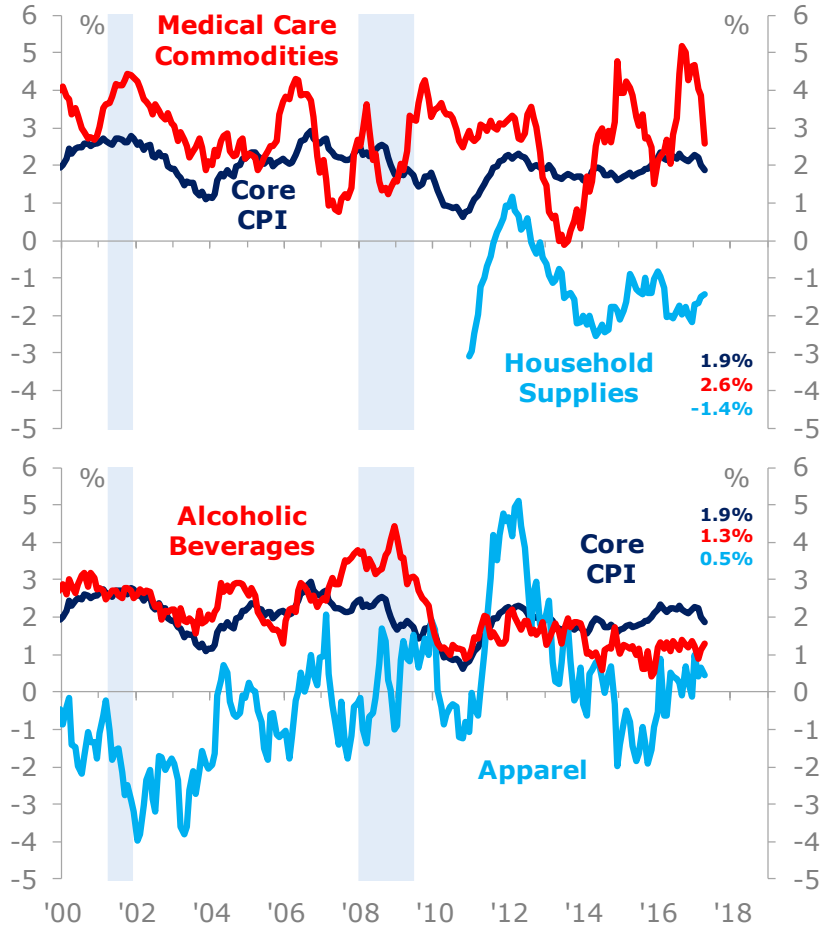
Category	Δ YoY (%)	CPI Weight (%)	Δ YoY Contr. (%)
<b>Total CPI</b>	<b>2.20</b>	<b>100.0</b>	<b>2.20</b>
<b>Food</b>	<b>0.53</b>	<b>13.7</b>	<b>0.07</b>
Food At Home	-0.76	7.9	-0.06
Food Away	2.35	5.8	0.14
<b>Energy</b>	<b>9.27</b>	<b>7.3</b>	<b>0.63</b>
Commodities	14.51	3.7	0.48
Services	4.42	3.6	0.16
<b>Core</b>	<b>1.88</b>	<b>79.0</b>	<b>1.49</b>
<b>Goods</b>	<b>-0.61</b>	<b>19.1</b>	<b>-0.12</b>
Hhold Furn.	-1.44	3.2	-0.05
Apparel	0.45	3.1	0.01
Transportation	-1.39	6.1	-0.09
Med. Care	2.58	1.8	0.05
Recreation	-3.63	1.8	-0.07
Edu./Commun.	-3.98	0.6	-0.03
Alcoholic Bev.	1.28	0.9	0.01
Other	2.20	1.6	0.03
<b>Services</b>	<b>2.71</b>	<b>59.9</b>	<b>1.61</b>
Shelter	3.45	33.6	1.15
Water/Trash	3.46	1.2	0.04
Hhold Ops.	2.84	0.8	0.02
Med. Care	3.06	6.7	0.20
Transportation	3.09	6.0	0.18
Recreation	3.15	3.9	0.12
Edu./Commun.	-2.39	6.1	-0.15
Other	3.11	1.6	0.05

Source: Floating Path, Bureau of Labor Statistics

# Inflation In Core Goods

## Core Medical Care Commodity Prices Have Increased At 2.6% From A Year Ago...

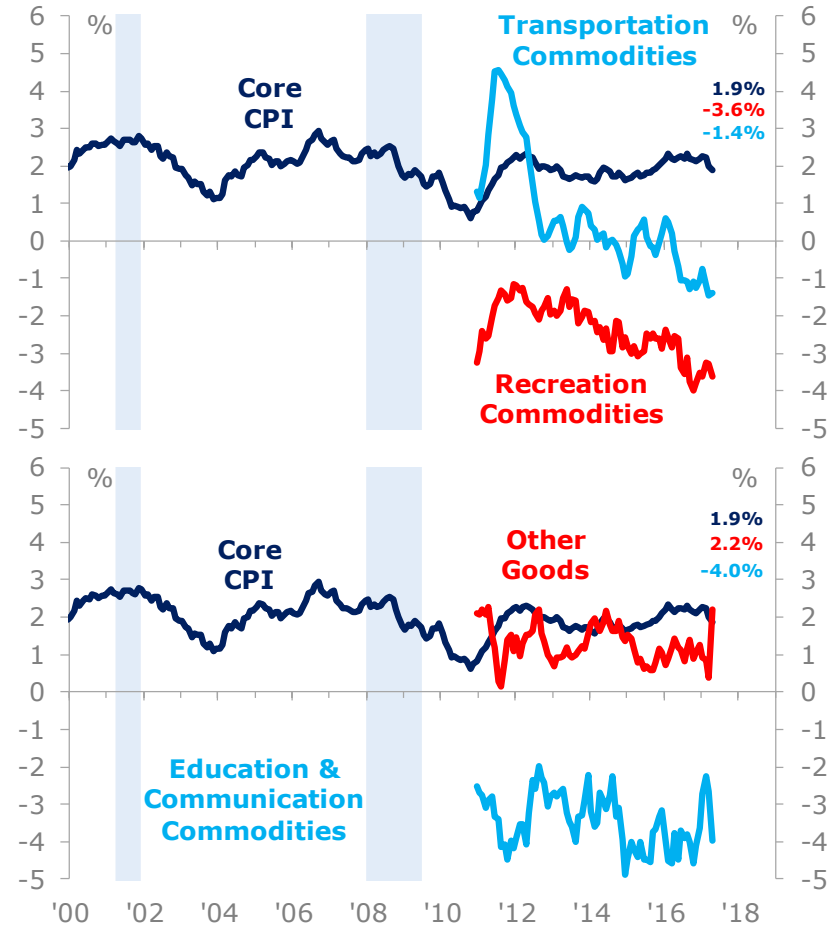
U.S. Consumer Price Index YoY



Source: Floating Path, Bureau of Labor Statistics

## ...Prices Of Most Other Core Goods Are Either Growing Very Slowly Or Deflating

U.S. Consumer Price Index YoY

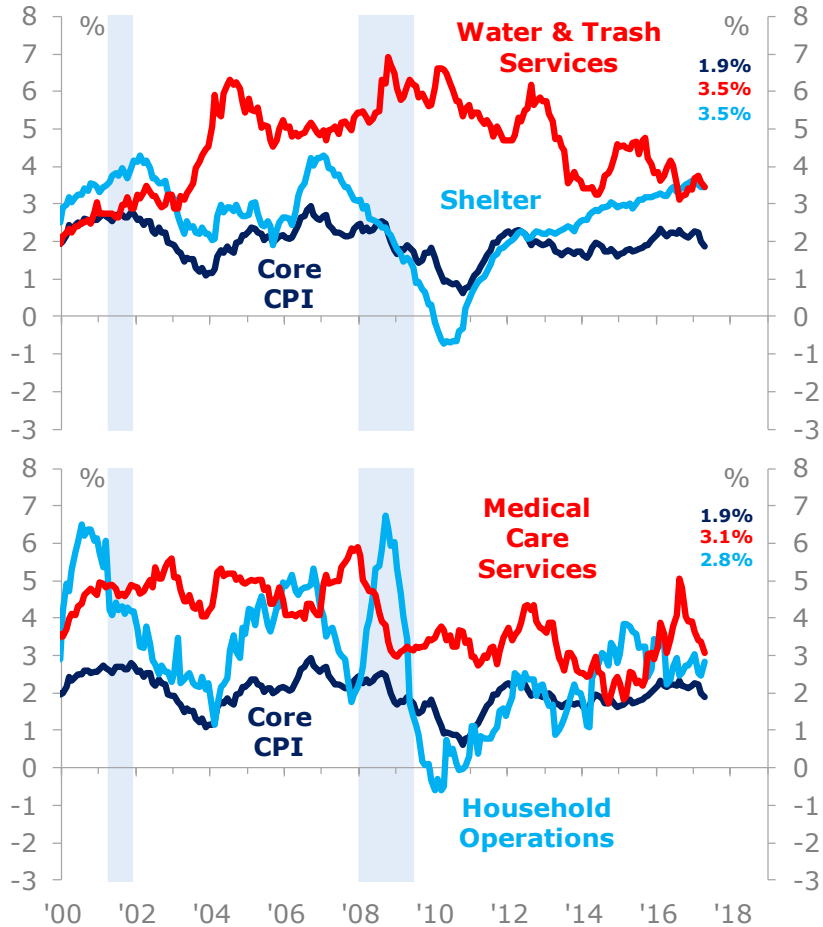


Source: Floating Path, Bureau of Labor Statistics

# Inflation In Core Services

## Core Medical Care Services Prices Have Increased 3.1% From A Year Ago...

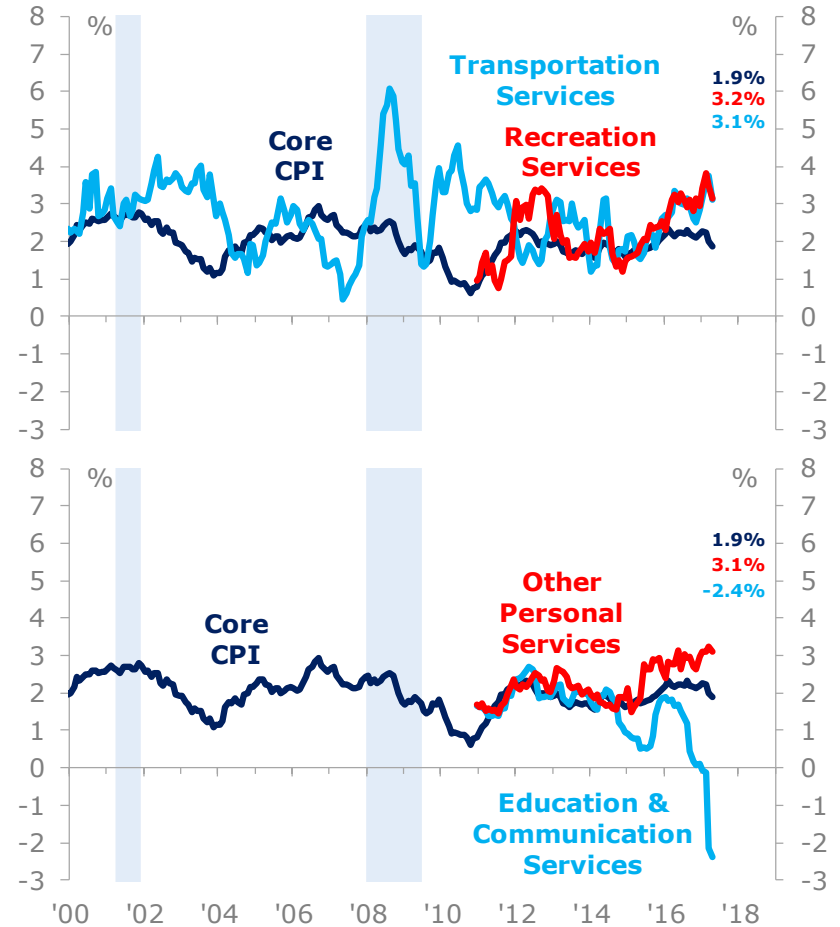
U.S. Consumer Price Index YoY



Source: Floating Path, Bureau of Labor Statistics

## ...Price Inflation For Education & Communication Services Has Sharply Rolled Over

U.S. Consumer Price Index YoY

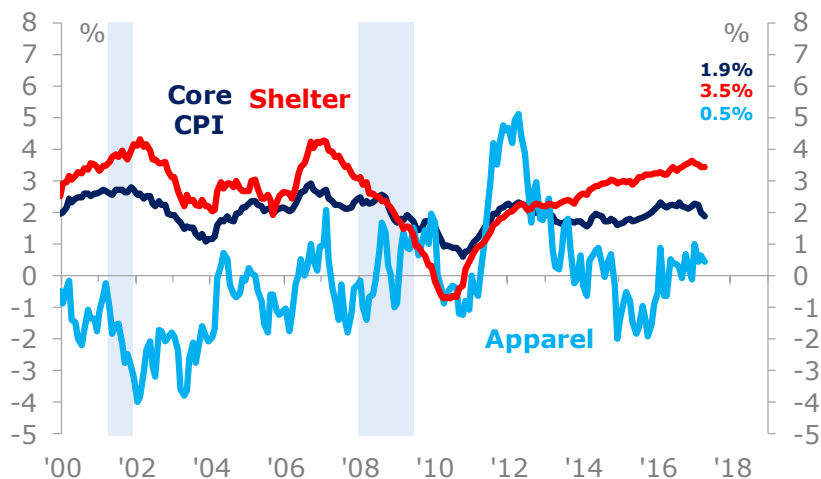
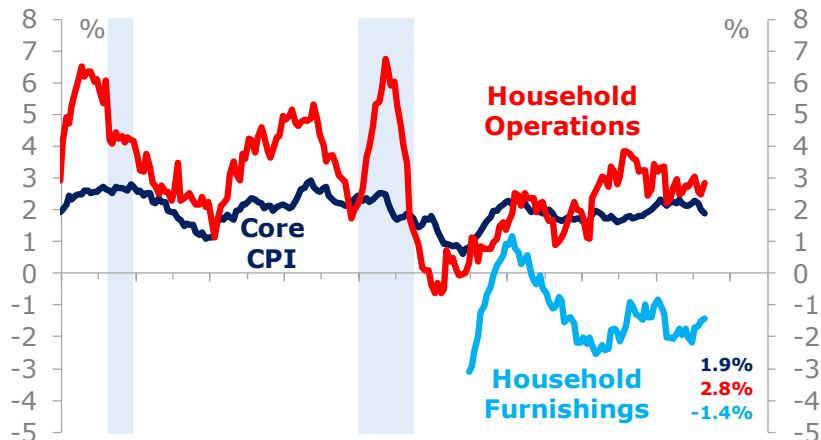


Source: Floating Path, Bureau of Labor Statistics

# Core Goods vs Core Services Essentials

**As Household Services Have Increased In Price, Furnishings Have Become More Affordable...**

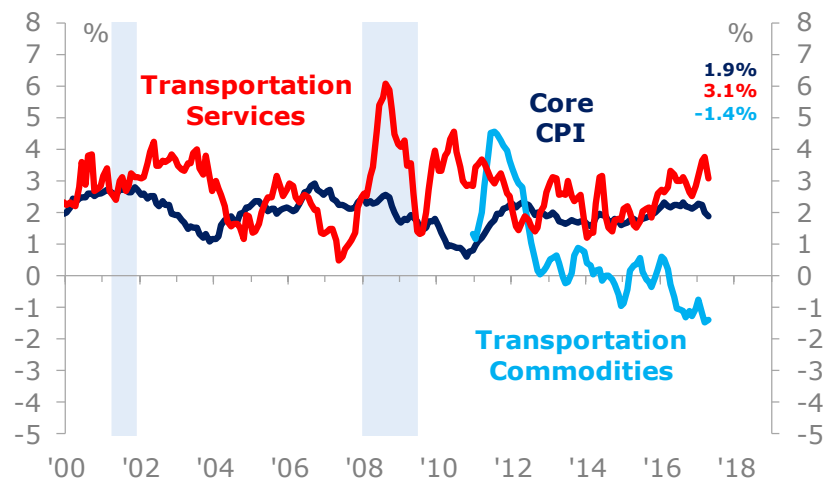
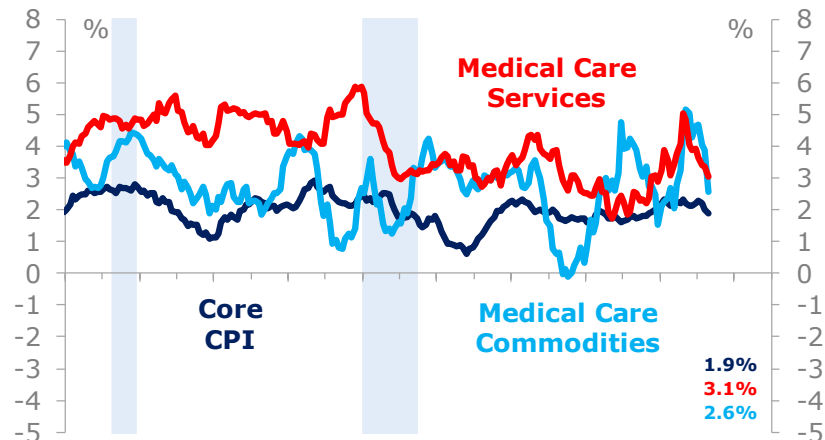
U.S. Consumer Price Index YoY



Source: Floating Path, Bureau of Labor Statistics

**...Both Services And Commodities Related To Medical Care Are Rising Faster Than Core CPI**

U.S. Consumer Price Index YoY

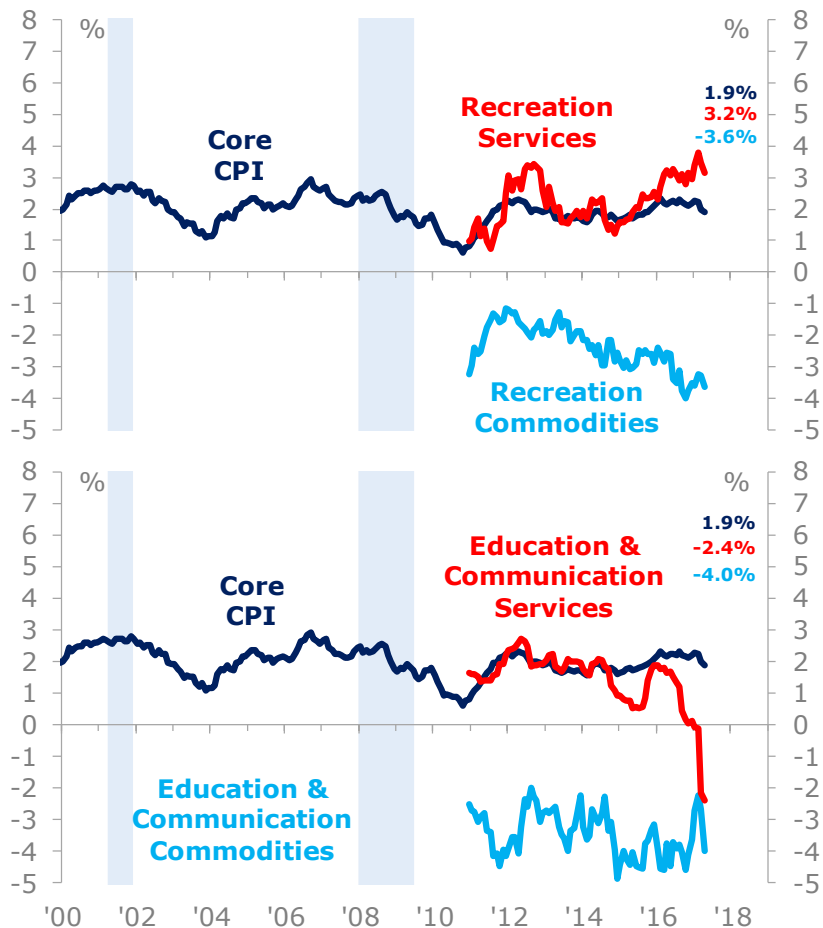


Source: Floating Path, Bureau of Labor Statistics

# Core Goods vs Core Services Electives

## Prices Of Items Related To Education & Communication Are Deflating...

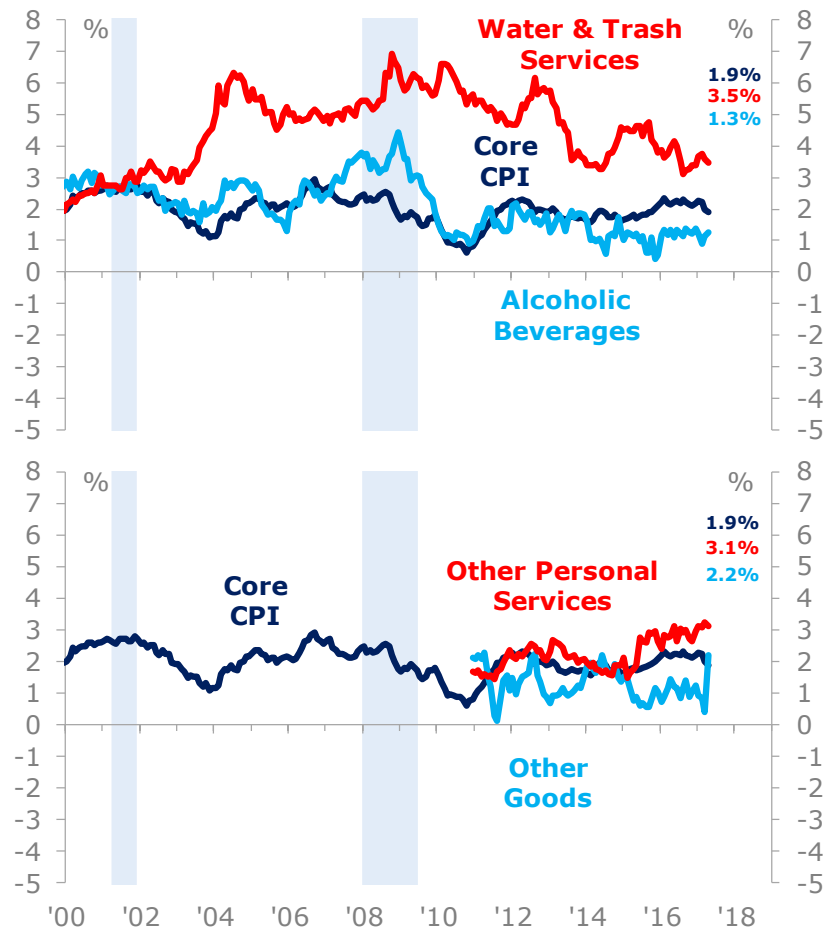
U.S. Consumer Price Index YoY



Source: Floating Path, Bureau of Labor Statistics

## ...Water & Trash Services Have Been Increasing Faster Than Core CPI For Years

U.S. Consumer Price Index YoY



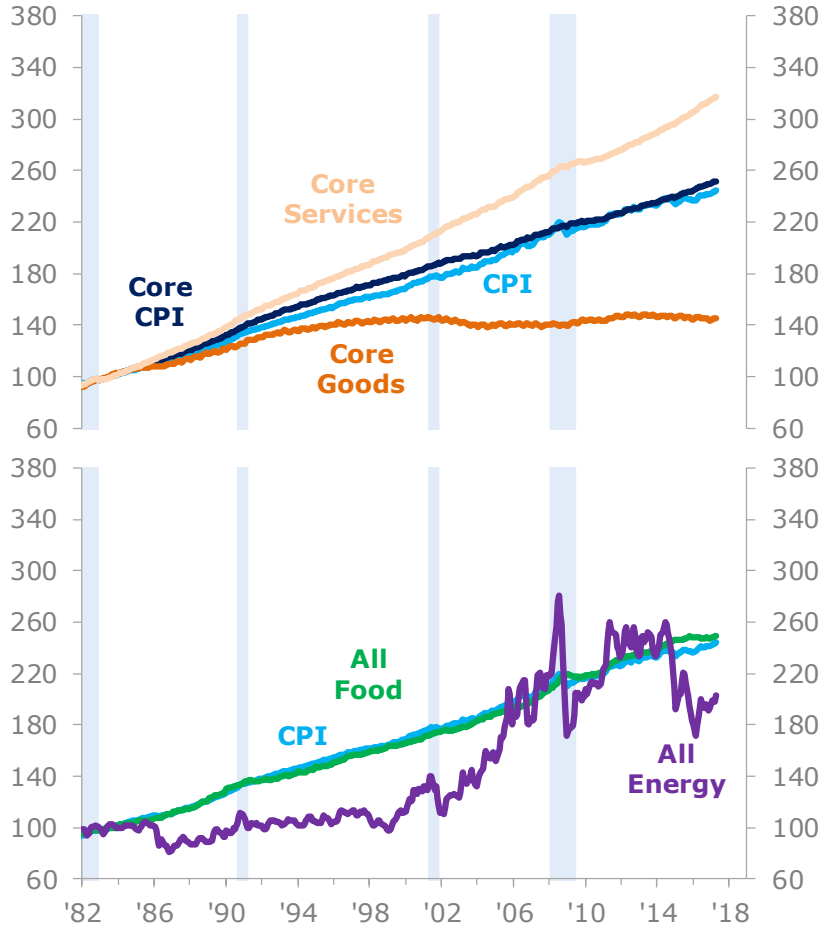
Source: Floating Path, Bureau of Labor Statistics



# Cumulative Price Changes Over Time

## Over The Past Several Decades, Inflation In Core Services Has Far Outpaced Goods...

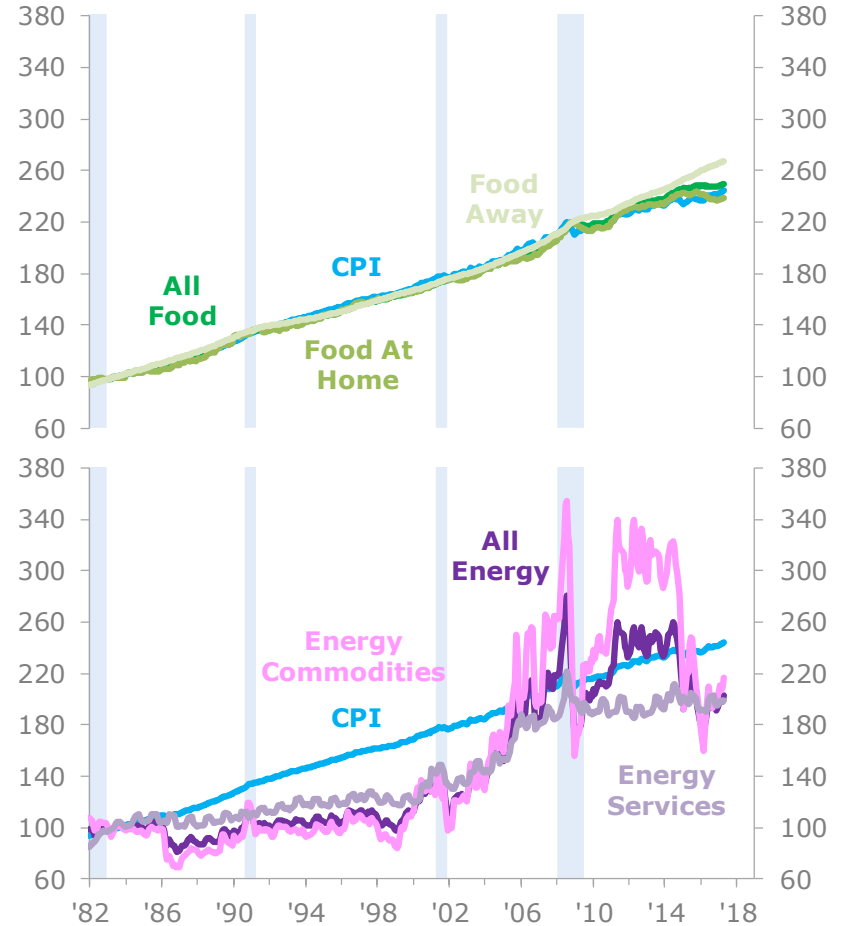
U.S. Consumer Price Index Levels (1982-1984=100)



Source: Floating Path, Bureau of Labor Statistics

## ...Energy Commodities Have Been Volatile While Energy Services Growth Has Been More Stable

U.S. Consumer Price Index Levels (1982-1984=100)

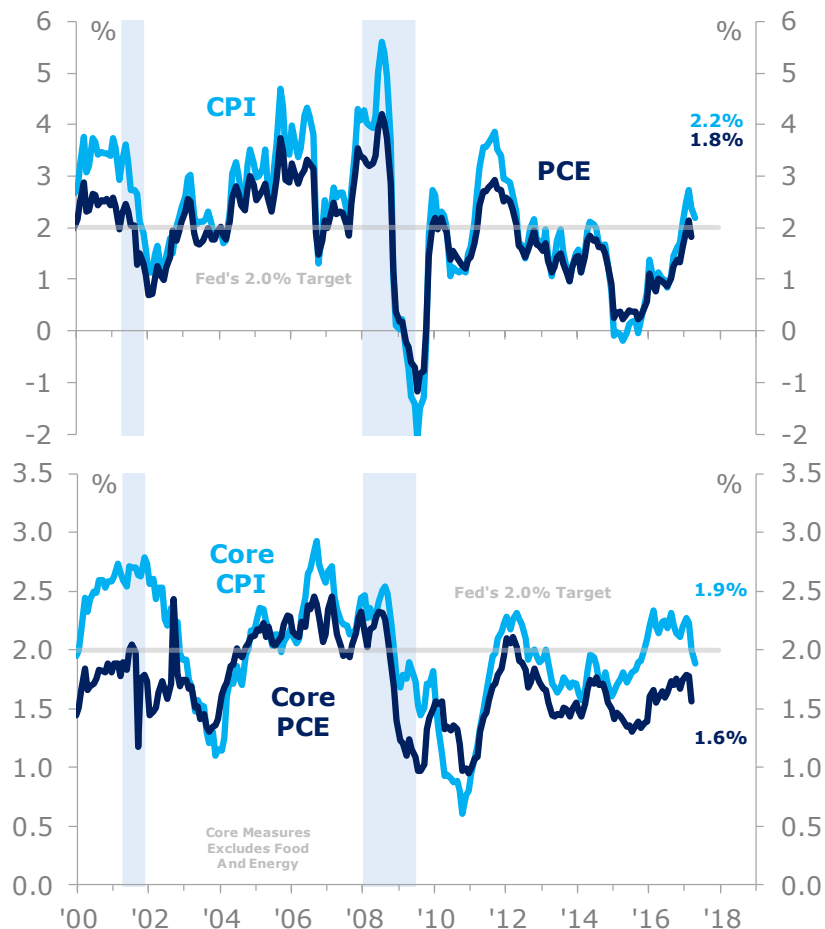


Source: Floating Path, Bureau of Labor Statistics

# PCE vs CPI Inflation

## Core CPI Has Been Increasing Faster Than Core PCE, The Fed's Preferred Inflation Measure...

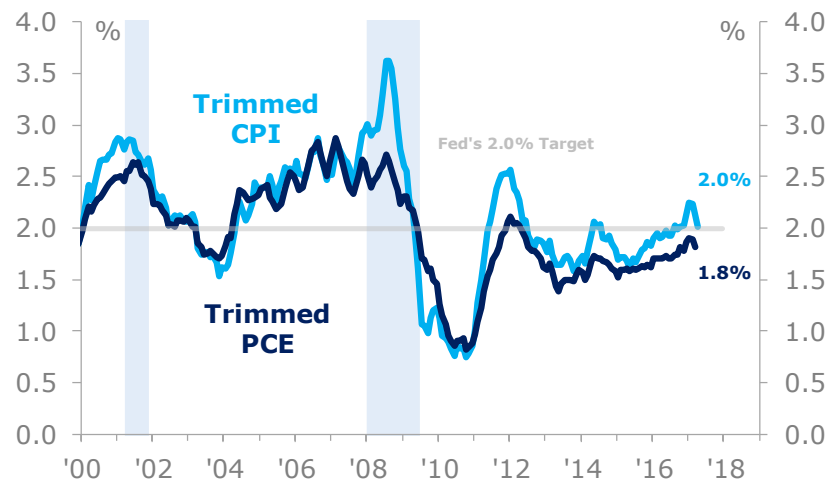
U.S. Inflation Measures YoY



Source: Floating Path, Bureau of Labor Statistics, Bureau of Economic Analysis

## ...There Remains A Gap Between The Trimmed Mean Measures

U.S. Inflation Measures YoY



### How The CPI And PCE Are Different

**Formula Effect** - The BLS (CPI) uses the modified Laspeyres formula while the BEA (PCE) uses the Fisher Price formula.

**Weight Effect** - The relative importance, or weights, accorded to components of the respective indices vary. In addition, CPI rebalances every 2 years while PCE rebalances quarterly.

**Scope Effect** - CPI captures expenditures by only urban consumers while PCE is broader and includes rural consumers. Unlike the CPI, the PCE includes expenditures from non-profit institutions that serve households. CPI only records out-of-pocket expenditure on medical and health care while PCE includes expenses paid by employers and other federal programs.

**Other Effects** - Differences in seasonal adjustments, how things like airline fares are treated, and other residuals.

Source: Floating Path, Bureau of Labor Statistics, Bureau of Economic Analysis