



COMMERZBANK

Economic Research

Economic Briefing

# US inflation slightly above expectations

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**US consumer prices rose by 0.3% in December compared to November, both overall and excluding the volatile prices for energy and food. This was slightly more than expected, but does little to change the gradual downward trend in inflation. What is important for the Federal Reserve is that the last mile in bringing inflation back to target appears to be more difficult. We therefore feel confirmed in our assessment that the Fed will not cut interest rates in March, as the market expects, but only in May.**

## The data

US consumer prices rose by 0.3% in December compared to the previous month, slightly more than expected. The year-on-year rate rose from 3.1% to 3.4%. The more important core rate, which excludes energy and food, also printed 0.3% on the previous month, as expected. In a year-on-year comparison, it fell from 4.0% to 3.9%.

## Gradual downtrend

The December data surprised slightly on the upside overall. The deviation from our own forecast is solely due to the fact that volatile used car prices rose by 0.5% compared to November, whereas the industry data we monitor had suggested a decline of just over 1%.

There has been no change in the general trend of a gradual decline in inflation. This is demonstrated above all by the core rate, which best reflects the underlying inflation (Chart 1). It is still primarily services prices, which are strongly influenced by wage costs, that are rising relatively strongly.

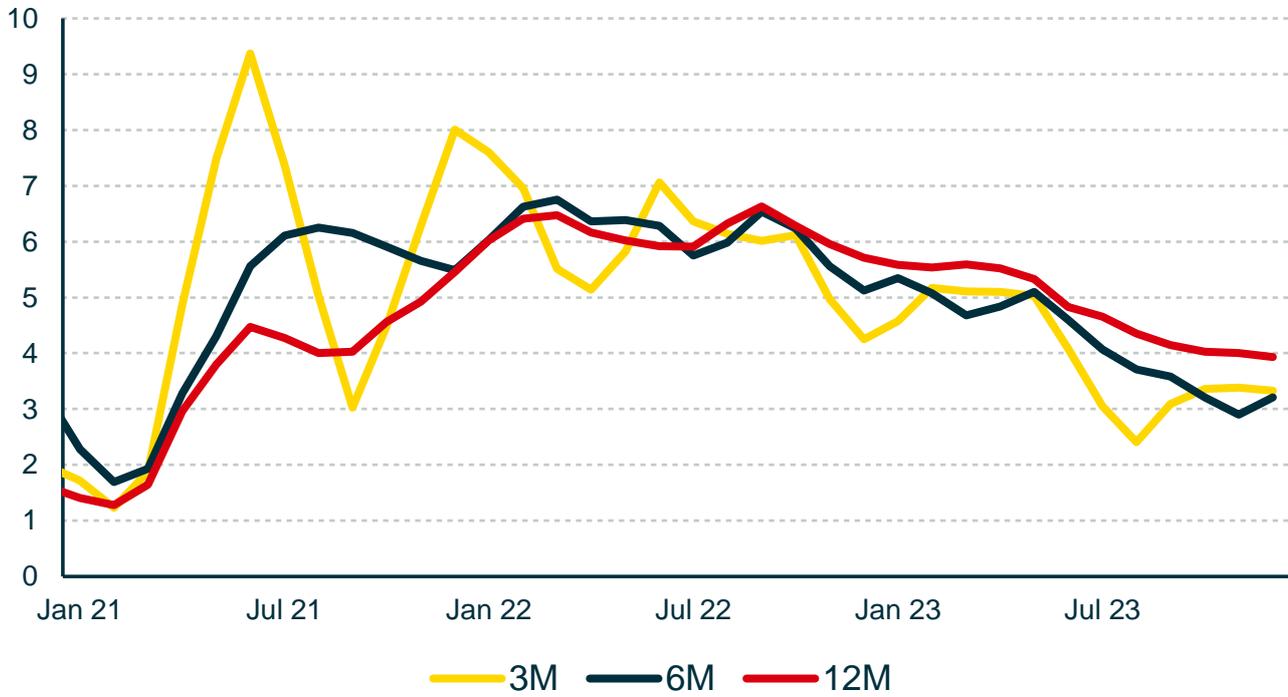


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### Chart 1 - Underlying inflation slows, gradually

consumer price index excluding food and energy, 3-/6-/12-month changes, annual rate in %



Source: S&P Global, Commerzbank Research

### The last mile gets bumpier

By and large, inflation is continuing to move in the right direction. However, progress towards the target is now clearly becoming more laborious, with underlying inflation only easing very slowly. Today's data do not provide any arguments for a rapid rate cut. The Federal Reserve will not want to risk damaging the credibility it has gained through rapid rate hikes by cutting rates before inflation approaches the 2% target on a sustained basis. We are sticking to our forecast that the Fed will cut its key interest rates only in May and not - as the market has priced in - in March.



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