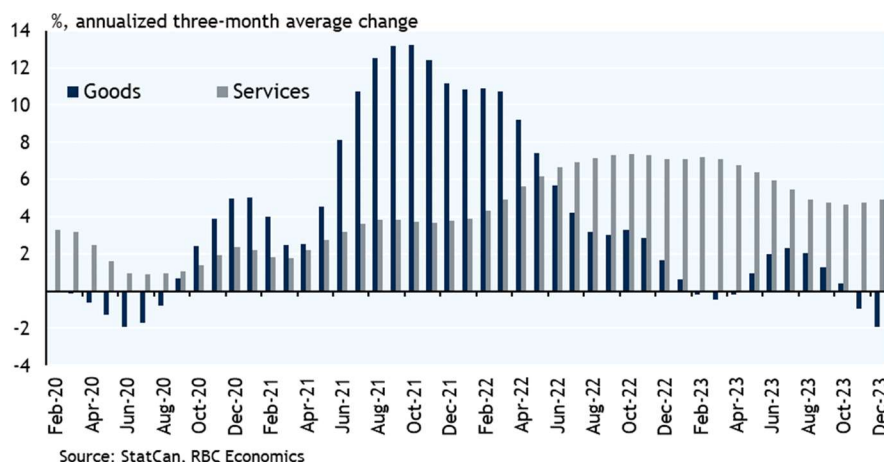


January 11, 2024

## December U.S. inflation showed marginal upside surprise

- US headline inflation growth rose to 3.4% in December, above consensus and our expectation for a 3.2% reading and up from 3.1% in November. The increase was supported by rising energy inflation while price growth in food and other non-energy components slowed.

### U.S. inflation pressures underpinned by services components



- In December, gasoline prices were largely unchanged from November on a seasonally adjusted basis. Year-over-year prices at the pump were still below year-ago levels (-1.9%) but that was a smaller decline than in November.
- Food inflation in the U.S. slowed further to 2.7% year-over-year in December on a small 0.2% month-over-month seasonally adjusted change from November. That yearly rate was also much lower than the 11.8% rate at the start of 2023, led by easing in grocery inflation that dropped to 1.3% in December. Price growth for dining out in the meantime has shown less downward progress, sticking at 5.2%.
- Excluding food and energy products, core price growth also slowed less than what was expected ahead of the data release, ticking slightly lower to 3.9% from 4% in November. On a month-over-month basis core prices were up 0.3% from November, matching the gain in the prior month on increases seen in rent (+0.4%), car insurance (+1.5%) and medical care services (+0.7%).
- Nearly all the near-term inflation pressures in the U.S. towards the end of 2023 could be attributed to the services components, predominately shelter services, which alone accounted for 70% of the 0.3%

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monthly growth in December. Elevated growth in rent costs remains the sticking point but should continue to slow as easing in market rent measures feeds through to leases with a lag.

- The Fed's preferred 'supercore' (core services ex-rent) measure rose by another large 0.4% in December after having risen a similar rate in the prior month, in part driven by higher medical care costs.
- **Bottom Line:** U.S. inflation readings surprised to the upside in December upon a larger than expected increase in some services components. Still, underlying details should do little to alter the narrative of easing inflation pressures in the U.S. - goods inflation ground to a halt by end of 2023, and the scope of price pressure was also left largely unchanged in December from already-narrow level a month ago. The Fed in December made the first important step to signal that potential interest rate cuts are on the horizon. Still, the central bank is expected to stay on a cautious path, especially against a still solid consumer backdrop and persisting resilience in the labour market. We expect the first cut to the fed funds target range in Q2.

U.S. CPI Growth				
	Oct-23	Nov-23	Dec-23	Dec-23
	MoM % change (SA)			YOY % change (NSA)
Headline	0.0	0.1	0.3	3.4
Food	0.3	0.2	0.2	2.7
Energy	-2.5	-2.3	0.4	-2.0
Core	0.2	0.3	0.3	3.9
Goods ex food and energy	-0.1	-0.3	0.0	0.2
<i>Used cars and trucks</i>	-0.8	1.6	0.5	-1.3
Services ex energy	0.3	0.5	0.4	5.3
<i>Rent of shelter</i>	0.3	0.5	0.4	6.2