Consumer inflation falls for first time in 9 months due to lower gas prices, CPI shows

Falling gasoline prices curbed inflation at the end of 2018, giving Americans a bigger financial cushion and granting the Federal Reserve more leeway in raising U.S. interest rates. The consumer price index slipped 0.1% in December to mark the first decline in nine months, the government said Friday. That matched the forecast of economists polled by MarketWatch.

The increase in the cost of living over the past 12 months slowed to 1.9% from 2.2%, the first time it's fallen below the key 2% mark since August 2017. The yearly rate had risen as high as 2.9% just six months ago. The drop in oil prices has masked inflationary pressures for other typical household expenses such as rent and car insurance. Another closely watched measure of inflation that strips out food and energy, known as the core rate, rose 0.2% last month.

The yearly increase in core CPI remained unchanged at 2.2%, slightly above the Fed's target. What happened: A steep drop in the cost of oil in the second half of 2018 caused price pressures to ease after a big runup earlier in the year. The cost of energy actually fell in 2018, reflecting the first yearly decline in almost 2½ years. That's helping to keep overall inflation in the U.S. at bay.

Aside from gasoline, prices also fell for plane tickets, used vehicles and prescription drugs in December. The cost of rent, groceries, household furnishings and medical expenses more broadly increased. Rising rent has been the biggest source of inflation in 2019.

After adjusting for lower inflation, hourly wages jumped 0.5% in December to push the year-over-year gain to a healthy 1.1%. That's the biggest increase in 2½ years, showing that most workers and their families are benefiting from the decline in gas prices and inflation more generally.

Big picture: Inflation has clearly tapered off, but it's uncertain if price pressures will remain on the soft side. Some economists think it's inevitable prices will rise again given the nation's extremely low unemployment rate and higher costs for raw materials in an economy running near its optimal speed.

Others see little reason to believe inflation will move much higher in 2019, especially with a slowdown in the global economy that will keep the cost of oil and other key commodities low.

The Federal Reserve, for its part, has to decide which view is right and determine how high to raise U.S. interest rates in response. If the Fed gets it wrong, the economy could suffer. For now, the Fed is leaning toward the view that inflation will remain contained.

What they are saying? "Overall, inflation risks remain well in check and are well down the list of potential concerns for both the capital markets and the economy," said Jim Baird, chief investment officer at Plante Moran Financial Advisors. "That bodes well for 2019 if the Fed can slow the pace of rate hikes or pause outright."

The 10-year Treasury yield TMUBMUSD10Y, +0.00% edged down to 2.69%. Yields tumbled to as low as 2.56% in early January from a seven-year high of 3.23% in October. The decline in yields was triggered by worries that the economy had taken a turn for the worse, a fear that now appears overblown.

Zephyr House
122 Mary Street,
P.O. Box 709 Grand Cayman
KY1-1107, Cayman Islands

Messettrum
Freidrich-Ebert-Anlage 49
60308 Frankurt
Hesse, Germany