



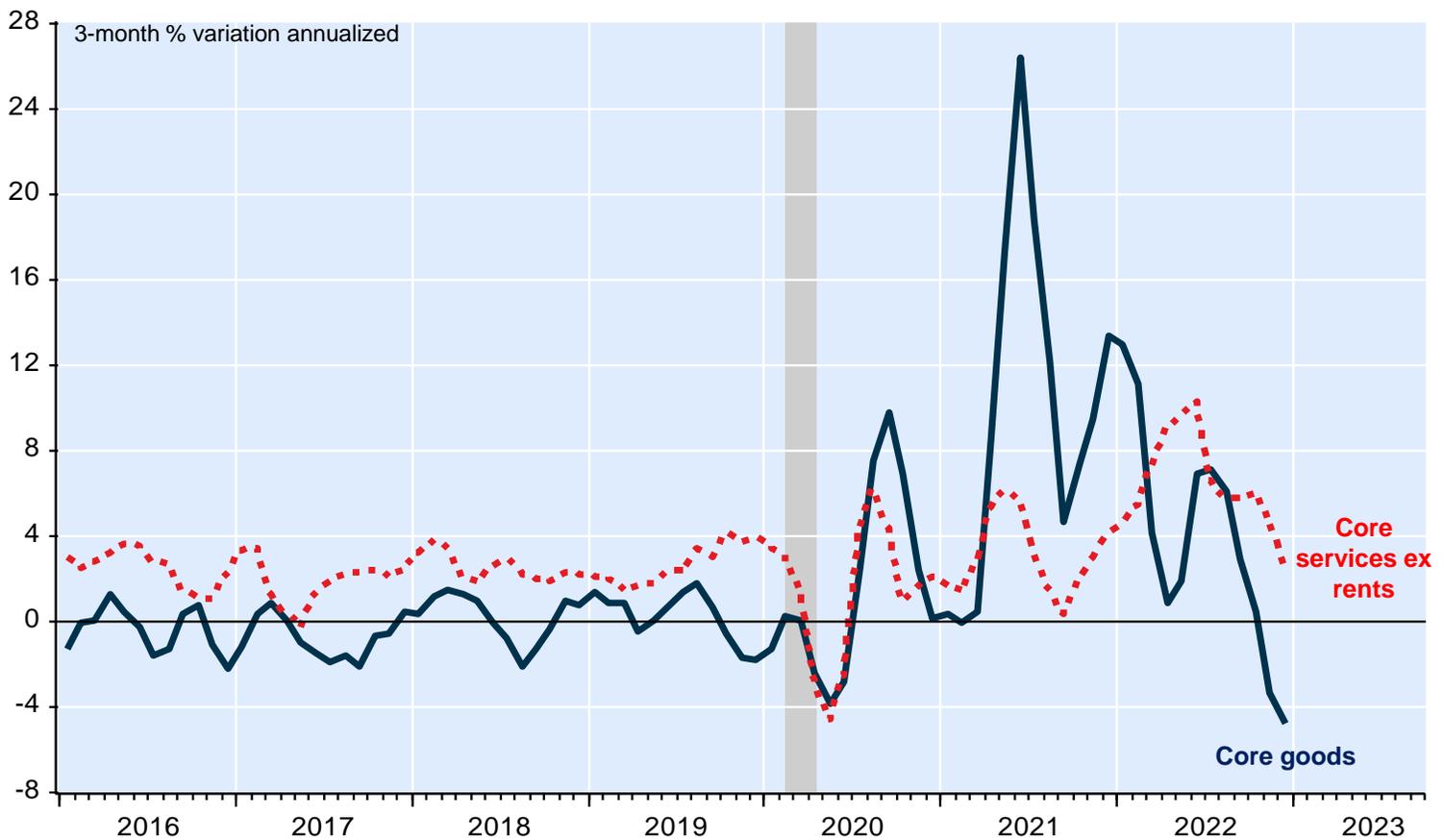
## U.S. Watch

By Matthieu Arseneau and Jocelyn Paquet

Inflation data for December released this morning by the BLS was in line with consensus expectations; the headline index declined 0.1% m/m while core prices progressed 0.3%. The latter pace was certainly encouraging compared to what had been observed earlier this year, but it nonetheless remained too high relative to the Federal Reserve's target. Still, the details of the report were very positive. Since summer, we have been promoting our view that core goods prices would moderate dramatically as transportation costs fall, supply chain problems ease, and Chinese production prices drop. Consistent with this view, core goods recorded their third straight decline in December. On a 3-month annualized basis, they were down 4.8% – the most on records – and this without the slightest sign of a trend reversal on the horizon. But even more interesting is that Chairman Powell's new favorite measure, core services excluding rents, had an annualized pace of 2.5% over the same period, below the 2.9% average recorded between 1999 and 2019. We agree with the Fed that the rent component is misleading in current context because it reacts with a big lag and do not reflect current weakness in the housing market. We continue to believe that a pause by the Fed will be warranted soon and that current restrictiveness will not need to be maintained for long.

### U.S.: Ex-rent inflation slowing down quickly

Services ex energy services & rents and commodities ex. food & energy



NBF Economics and Strategy (data via Refinitiv)

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