Energy Prices Hold Down Overall U.S. Inflation

Consumer prices were flat in January for the third month in a row, but underlying price growth remains steady

Shoppers browsed the aisles at a Target Corp. store in Newport, Ky., in November 2018.PHOTO: JOHN MINCHILLO/ASSOCIATED PRESS

By Sharon Nunn
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WASHINGTON—Volatile energy prices are holding down overall inflation in the U.S. economy, but underlying price growth remains steady.

The consumer-price index, which measures what Americans pay for goods and services such as washing machines and haircuts, remained the same in January for the third month

in a row, the Labor Department said Wednesday. Inflation was up 1.6% from the prior year, the smallest year-over-year gain since the middle of 2017.
However, when excluding the volatile food and energy categories, so-called core prices grew 0.2% from December and have remained at that growth pace for about half a year. Energy prices tanked in January from the prior month, offsetting price growth in other major categories Americans spend their money on. This helped hold down overall inflation.

The latest price growth data largely bolster the Federal Reserve's recent wait-and-see approach to its rate-setting policy. Wednesday's report suggests core inflation measured by the Fed's preferred gauge held steady at 1.9% for the year ended January, unchanged from December, according to economists at Morgan Stanley. This is a tick below the Fed's 2% price growth target, a level it considers healthy for the economy.

Fed officials have pointed in recent weeks to muted inflation pressures as one reason why they can pause from raising their short-term rate. A surge in market volatility late last year and concerns of slowing global growth prompted officials to move to the sidelines and see if that turmoil leads to a sharper slowdown in U.S. growth.

The underlying details of the report show longer-term price growth in the services industry has been decelerating since the middle of 2018, while prices for goods have finally started to grow in recent months. These two trends had been reversed throughout much of the current business cycle.

"It's something to keep an eye on... it could be the first sign that continued [higher-than-usual] economic growth and the tightening labor and product markets are starting to build some inflation pressures" in other parts of the economy, said David Berson, chief economist at Nationwide.

The recent uptick in goods price growth stems in part from a surge in prices for clothing and used cars, the latter of which could prove unsustainable, according to Pantheon Economics chief economist Ian Shepherdson. At the same time, services price deceleration has been driven partly by slowing shelter inflation. This includes rent, a large chunk of the typical American's living expenses.

Meanwhile, wages rose at a slower pace in January. After adjusting for the fresh inflation data, average hourly earnings increased 0.2% in January from the prior month after rising 0.4% in December and 0.3% in November.

A strengthening U.S. dollar is probably dampening inflation, alongside falling gas prices. The WSJ Dollar Index, which measures the dollar against other major currencies, has grown about 8% over the past year. This makes foreign goods cheaper for American consumers.

Americans' expectations for future price growth have remained largely steady and lower than expected in recent years as wage growth remained muted, and businesses have found it hard to raise prices. But Mr. Berson points out that continued low gas prices could, in theory, lower consumers' inflation expectations even further, leading to lower overall inflation in the economy.

But that "seems unlikely, given the limited degree to which 'well-anchored' inflation expectations have been affected by much larger swings in oil prices in recent years," according to Jim O'Sullivan, chief U.S. economist at HFE, an economic and research consulting firm.

Fed chairman Jerome Powell said after a recent Fed meeting that the risk of inflation flaring appears to have diminished, despite a strong labor market and continued solid economic growth. The unemployment rate continues to hover near multidecade lows and the economy has been growing above what many analysts consider sustainable.
The Fed raised its benchmark rate four times last year, most recently in December to a range between 2.25% and 2.5%.

—*Nick Timiraos contributed to this article.*