



December 15, 2015

## TD Economics

### Data Release: Core inflation reaches 2% in November, as services inflation continues to rise

- Consumer prices were unchanged (month-over-month) in November, as falling energy prices offset price increases elsewhere. Core CPI (excluding food and energy) was up 0.2%, as expected.
- On a year-over-year basis, overall consumer price inflation edged up to 0.5% (from 0.2%). The close-to-zero trend has been in place for all of 2015 on the collapse in energy prices. Core inflation moved up one tick to 2.0% in November.
- Inflation for core services has been marching steadily higher since the spring, and is now running at a hearty 2.9% year-over-year. Inflation in a number of services categories has picked up in recent months, including medical services, education and personal services.
- Core goods prices, which fell 0.2% m/m, provided a partial offset to healthy services inflation. Core goods prices are 0.6% lower than a year ago, as a stronger dollar weighs on the prices of many imported consumer goods.

### Key Implications

- The uptick in inflation in November supports the notion that the American economy is ready to move off zero interest rates. November's inflation report provided further confirmation that domestic economic strength is starting to bubble up into pricing pressures. Headline inflation is still close to zero, but core inflation is now at 2%. It has now been a year since energy prices went into free fall, which means energy prices will soon stop exerting the same downward pressure on headline inflation in the coming months.
- All eyes are now on Janet Yellen and the Fed for tomorrow's interest rate decision out at 2pm. A 25-basis point interest rate hike is now widely expected, with markets watching the Fed's tone closely to gauge the pace of rate hikes going forward.

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