

CPI: Inflation Gave Way to Potential Deflation

Consumer prices fell for the third straight month and the year-over-year growth rate fell to its slowest pace in more than a half-century. This is just five months after setting an 18-year high. The rapid turn in energy and commodity prices and a global recession have combined to rapidly push inflation lower.

Inflation Showed Minimal Gain for 2008

- Consumer prices increased just 0.1 percent in 2008 as the commodity bubble burst, erasing gains from earlier in the year and then some.
- While headline inflation remained barely positive for one more month, we think it is unlikely this will continue. Inflation will likely slip below zero in coming months.

Core Inflation Also Slowed Further

- Core inflation has seen virtually no growth over the last three months, as the economy contracted sharply. We look for further slowing in core inflation, with growth of just 1.5 percent expected in 2009. Shelter costs, which are 43 percent of the core CPI, rose just 1.9 percent last year. With housing still declining, we do not look for inflation pressure here in the coming year.

