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The Insurance Information Institute (I.I.I.) Inflation Watch spreadsheet contains the latest data from the U.S. Department of Labor's Bureau of Labor Statistics (BLS). Both current and expected near-term general inflation continue to be low by historical standards, but there are pockets of rising inflation. The CPI-U—the popular measure of inflation, sometimes called headline inflation—rose by 2.7 percent in February 2017 vs. February 2016, before seasonal adjustment. Core inflation—the overall index minus the effects of price changes for food and energy—rose 2.2 percent for the 12 months ending February 2017. (Most economists prefer a year-over-year time frame and the core—not the "headline" inflation measure.) The BLS year-over-year core inflation rate has been essentially flat since January 2016. The core year-over-year Personal [redacted]

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liability, as well as first-party coverages like Personal Injury Protection (PIP) and med pay and, obviously, medical expense insurance. For many years these price increases have far outpaced both headline inflation and the overall price index for medical care, but that has been moderating lately. Seasonally adjusted on a year-over-year basis, in February 2017 prices for inpatient hospital care rose by 3.9 percent. Seasonally adjusted prices for outpatient hospital services rose by 4.3 percent in February 2017 over February 2016. This could constitute a “new normal” for these services: in 16 of the last 20 months, the year-over-year rise in outpatient hospital prices was below 4 percent (and in the other four months it was under 4.8 percent). However, price changes for prescription drugs have been rising more strongly; February 2017 saw a 5.2 percent year-over-year rise.

Price increases relating to auto insurance property claims have been quite moderate recently. Prices for motor vehicle parts and equipment, which affect not only comprehensive and collision claims, but property damage liability as well, dropped by 0.9 percent in February 2017 vs. February 2016. These prices fell in most months since August 2012, although oddly the December 2016 change from November 2016 was +0.6 percent—the largest one-month rise in 5 years. Current prices for motor vehicle parts and equipment are about even with prices in May 2011. Prices for motor vehicle repair rose by 2.3 percent for the 12 months ended February 2017, thanks primarily to a one-month jump of 0.7 percent in November 2016 over October 2016. Prices for motor vehicle body work rose by 2.7 percent year-over-year (not seasonally adjusted). The BLS survey of consumer prices for motor vehicle insurance in February 2017 rose by 7.6 percent year-over-year; this is partly attributable to one-month increases of 0.8 percent or greater in four of the last 12 months. Of course, many factors other than prices for auto repair—such as the continuing drop in insurers’ investment income, and continuing above-CPI growth in the prices for intensive medical care, and an unusual upturn in the collision rate, which is related to the increase in the number of people employed (and adding cars to rush hour)—likely are affecting these increases.

Some price increases relating to property insurance claims have been quite moderate recently. From the producer price index for commodities (not seasonally adjusted), prices for furniture and household durables rose by 0.5 percent year-over-year; prices for lumber and wood products rose by 2.7 percent in February 2017 over February 2016. However, prices for metals metal products rose by 8.2 percent. The Census Bureau computes a price index for new single-family houses under construction; the latest data is for January 2017, showing a 9.0 percent increase over the index in January 2016.

Also, there are some signs that wages are growing barely faster than inflation. The Bureau of Labor Statistics reported that, on a year-over-year basis, average weekly earnings grew by 2.5 percent in February 2017 over the prior February, and average hourly earnings grew by 2.8 percent. Wage growth affects workers compensation and, indirectly, liability and PIP claims. Wage growth above inflation means consumers have increased buying power, which could lead to stronger economic growth near term. As the economy approaches full employment, wage gains over inflation are expected to widen, but that has not developed yet. There is still slack in the labor market, as evidenced by the 5.7 million people who are working part-time but want full-time employment, the 522,000 people who say they are “discouraged” from even looking for a job, and others who are not in the labor force but could join if job conditions tighten, etc. The labor market slack is generally believed to restrain higher inflation, at least in the coming months.

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