# U.S. Data Review

- CPI: a jump in core spurred by a surge in service prices
- The January CPI reduces further odds of a rate cut before the June FOMC meeting

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## January CPI

- The January CPI report provided an upside inflation surprise, a contrast to revisions published last Friday that had assured market participants that the previously reported trend of moderating inflation remained intact. In the latest month, the headline CPI rose 0.3 percent and the core advanced 0.4 percent (0.305 percent and 0.392 percent, respectively, with less rounding; the headline CPI increased at an annual rate of 2.8 percent in the past three months versus 1.9 percent in December, and the core CPI surged 4.0 percent versus 3.3 percent in December; charts, next page). The increases in both the headline and core were 0.1 percentage point larger than the consensus expectations. The year-over-year increase in the headline CPI eased to 3.091 percent in January from 3.352 percent in December 2023, while the year-over-year advance in the core was little changed from the previous reading (3.862 percent in January 2024 versus 3.930 percent in December 2023).

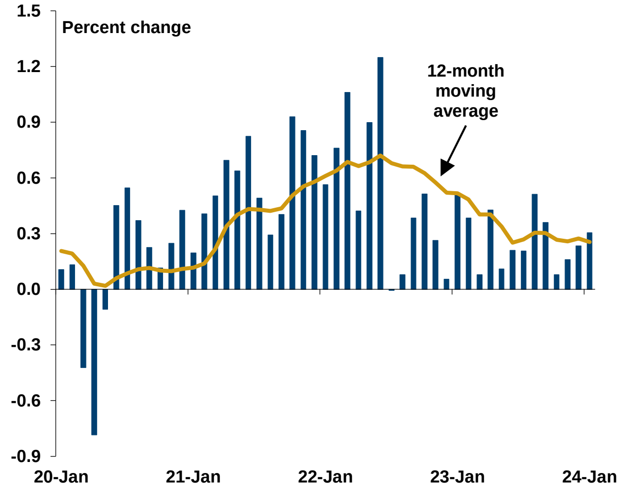
- The energy component fell 0.9 percent in January, the fourth consecutive month-to-month decline. On a year-over-year basis, energy prices dropped 4.6 percent in January 2024 versus a decline of 2.0 percent in December (chart; next page, bottom left). In the latest month, the energy commodities fell 3.2 percent, led by a drop of 3.3 percent in the price of motor fuels. The costs of energy services rose for the eighth consecutive month, including a jump of 1.4 percent in January. A jump of 2.0 percent in the price of utility gas service was joined by an increase of 1.2 percent in electricity costs.

- Food prices advanced 0.4 percent in January, notably faster than the moderate monthly average increase of 0.2 percent in 2023 but still well below the average of 0.8 percent per month in 2022. The latest year-over-year increase of 2.6 percent was a tick slower than the reading in December 2023 and well below the current cycle peak of 11.4 percent in August 2022 (chart; next page, bottom left).

- The increase of 0.4 percent in the core CPI was the fourth reading in the past five months that equaled or exceeded 0.3 percent. On a year-over-year basis, core goods prices fell 0.3 percent (versus a decline of 0.1 percent in December 2023), while the year-over-year advance in service prices excluding food and energy accelerated to 5.4 percent from 5.3 percent (chart; next page, bottom right). In the latest month, core goods prices were contained by a plunge of 3.4 percent in used vehicle prices and declines in the costs of apparel and medical care commodities (off 0.7 percent and 0.6 percent, respectively). Conversely, in the service area, price pressure was broadly based, with shelter costs again a key pressure point. The rent of primary residence component rose 0.4 percent, slower than the average of 0.5 percent per month in 2023, but the owners' equivalent rent component picked up from the underlying average (0.6 percent versus an average of 0.5 percent in 2023). Other areas posted large moves: costs of lodging away from home surged 1.8 percent; costs of medical care services jumped 0.7 percent; the price of motor vehicle insurance increased 1.4 percent; postal and delivery service fees advanced 1.2 percent; charges for financial services spiked 2.4 percent. Many of those readings were well above underlying trends.

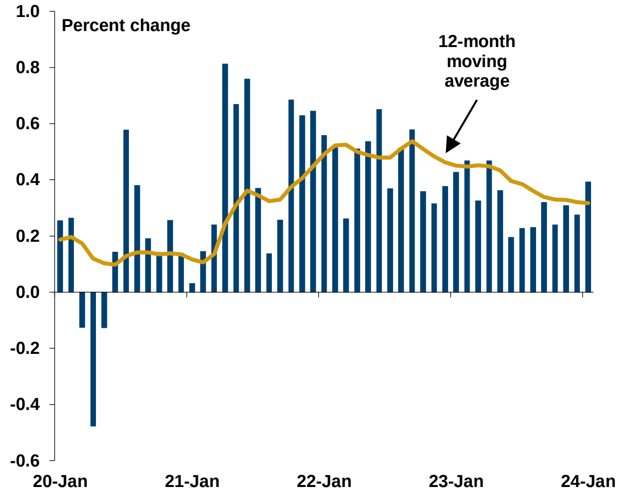
- In our view, the latest reading on the CPI further diminished the already miniscule possibility of a Fed pivot in March and lowered the probability of a move in May. For the time being, we'll stick with our long-standing call of the first cut coming in June. Fed officials have indicated that their next move will be a rate cut, but the January CPI reading showed that the path back to the two-percent target is likely to be non-linear. The breadth of disinflationary pressure remained relatively narrow, as it has yet to more meaningfully broaden to service inflation. Policymakers will continue with a cautious approach, one aligned with avoiding the potentially damaging policy error of declaring a premature victory against inflation.

## Headline CPI



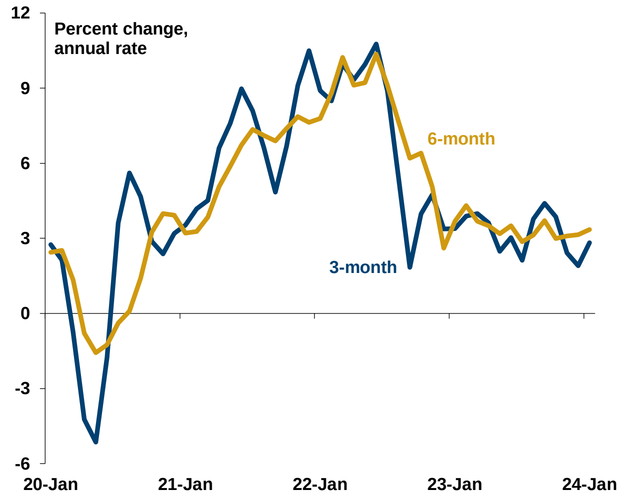

*Source: Bureau of Labor Statistics via Haver Analytics*

## Core CPI



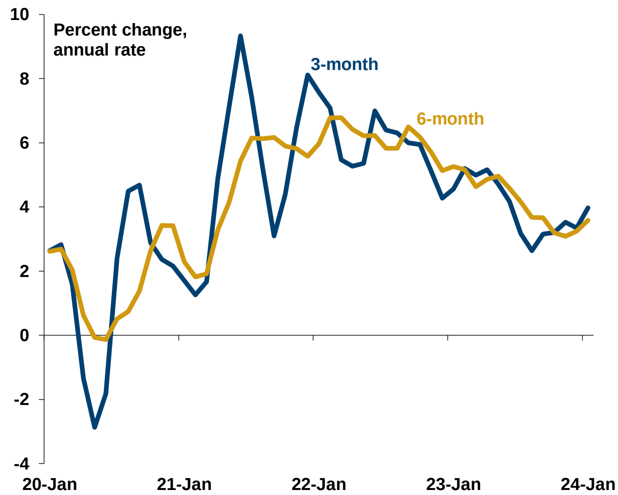

*Source: Bureau of Labor Statistics via Haver Analytics*

## Headline CPI



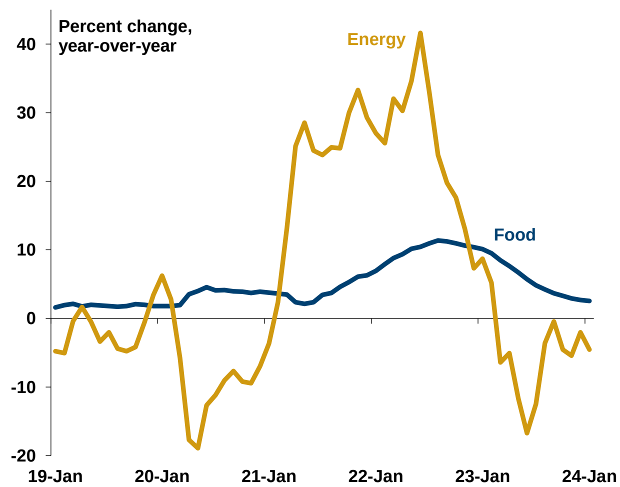

*Source: Bureau of Labor Statistics via Haver Analytics*

## Core CPI



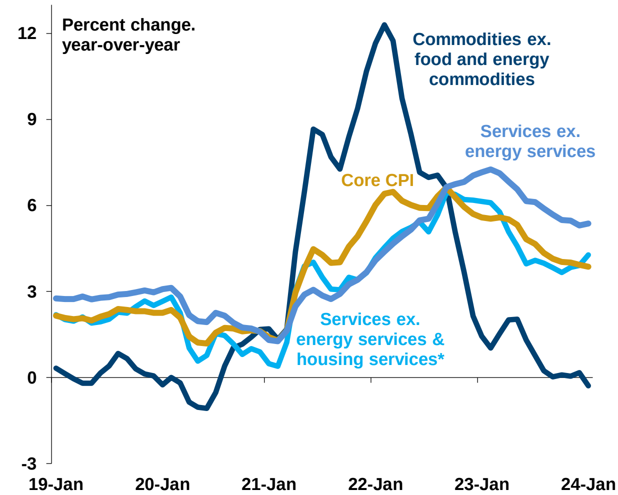

*Source: Bureau of Labor Statistics via Haver Analytics*

## CPI: Food & Energy




*Source: Bureau of Labor Statistics via Haver Analytics*

## Core CPI




** Service prices excluding energy services, rent of primary residence, and owners' equivalent rent components.*

*Source: Bureau of Labor Statistics via Haver Analytics*