

U.S. Data Review

- CPI: ongoing pressure in core services

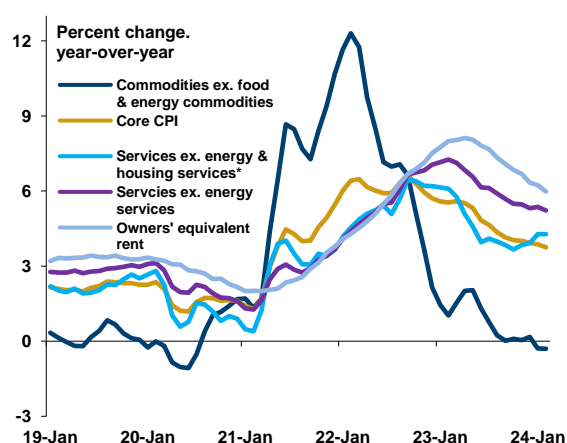
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February CPI

- The February CPI report indicated ongoing inflation pressure, with the headline and core CPI both rising 0.4 percent (0.442 percent and 0.358 percent, respectively, with less rounding). The year-over-year increase in the CPI accelerated to 3.153 percent in February from 3.091 percent in the prior month, while the year-over-year advance in core slowed modestly (3.752 percent versus 3.862 percent in January).
- The energy component jumped 2.3 percent month-to-month after four consecutive declines. On a year-over-year basis, energy prices eased 1.9 percent versus a drop of 4.6 percent in January. In the latest month, the energy commodities jumped 3.6 percent, led by a surge of 3.8 percent in the price of gasoline. The costs of energy services increased for the ninth consecutive month, including an advance of 0.8 percent in February. An increase of 2.3 percent in the price of utility gas service was joined by a pickup of 0.3 percent in electricity costs.
- Food prices settled, registering no change in February, after a high-side reading of 0.4 percent in the prior month. The latest year-over-year increase of 2.2 percent was down from 2.6 percent in January and well below the current cycle peak of 11.4 percent in August 2022. In other words, the food component has returned to the pre-pandemic trend.
- The core CPI jumped 0.4 percent for the second consecutive month (chart, below left). Core goods prices ticked higher (0.1 percent) following a net decline in the previous eight months, with the year-over-year dip of 0.3 percent in line with both the January reading and the favorable pre-pandemic trend. Service prices excluding energy increased 0.5 percent after an advance of 0.7 percent in January (5.2 percent year-over-year over year versus 5.4 percent in January). Housing was again a source of pressure, with the rent of primary residence component increasing 0.5 percent and owners' equivalent rent increasing 0.4 percent (5.8 percent and 6.0 percent year-over-year, respectively). Core service inflation excluding housing also was problematic. This measure rose 0.5 percent (0.473 percent) month-to-month after a surge of 0.848 percent in January. The year-over-year change of 4.282 percent was essentially unchanged from the reading of 4.277 percent in January but faster than the December reading of 3.913 percent.
- The latest inflation data may prove problematic for the FOMC after Chair Powell indicated in his congressional testimony last week that officials are "not far" from gaining confidence that inflation is moving sustainably back to two percent. The three-month annualized growth rate in the core CPI accelerated to 4.2 percent in February from 4.0 percent in January, reversing significant progress in the second half of 2023 (chart, below right). The three-month annualized growth rate in core services excluding primary rent and owners' equivalent rent of residences jumped to 6.9 percent from 6.7 percent (and 4.0 percent in December 2023).

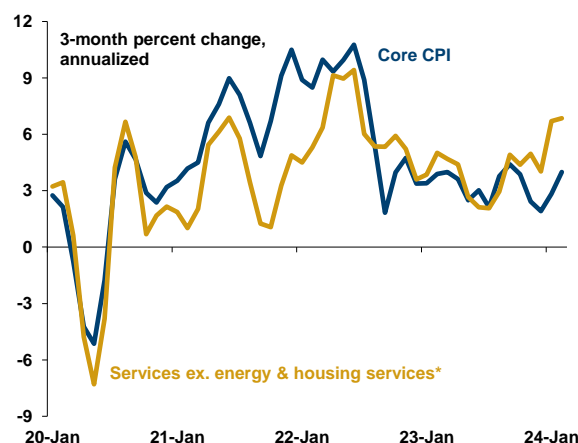
Core CPI Decomposition



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

Source: Bureau of Labor Statistics via Haver Analytics

Core CPI Inflation



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

Source: Bureau of Labor Statistics via Haver Analytics

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