

# U.S. Data Review

- CPI: moderate increases in headline and core in December; latest results unlikely to prompt easing in monetary policy at the late-January FOMC meeting

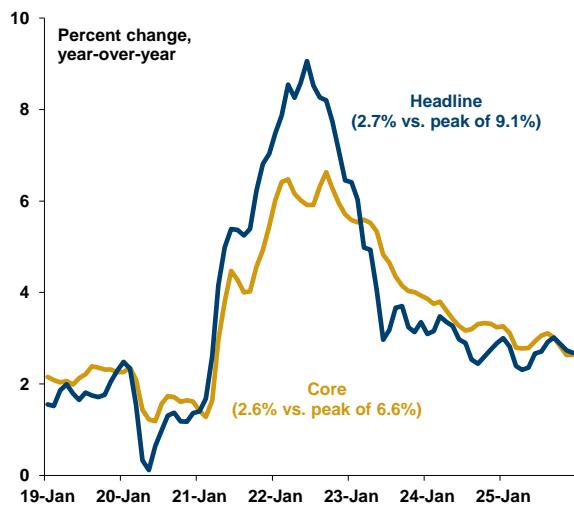
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## December CPI

- The headline CPI rose 0.3 percent in December, matching the Bloomberg median expectation, while the core print of 0.2 percent was 0.1 percentage point shy of consensus. The monthly changes translated to year-over-year advances of 2.7 percent for the headline measure (+2.677 percent in December versus +2.735 percent in the prior month) and 2.6 percent for the core (+2.639 percent, up marginally from +2.633 percent in November; chart, below left). Nevertheless, the results were down notably from the 3.0 percent year-over-year rates in September (October data unavailable on account of the government shutdown). Despite the presumably “clean” read in the latest month (i.e., presumably free of distortions tied to an abbreviated sampling period after the government shutdown, which was the case for November), we see the result as unlikely to shift market perceptions that the FOMC will hold the federal funds rate steady at the conclusion of the January 27-28 meeting. Prior to the release, many Fed officials remained adamant that above-target inflation remained concerning. Moreover, these same inflation hawks are likely to emphasize that the December reading of 4.4 percent on the unemployment rate (published January 9) suggests relative stability in the labor market – a condition that allows officials to remain patient in early 2026.
- Setting aside considerations pertaining to the upcoming FOMC meeting, we view the internals of the report as fairly favorable and indicative of a gradual ongoing disinflationary process – albeit with probable volatility in coming months. First an area of concern: the latest seasonally adjusted surge of 0.7 percent (+0.710 percent with less rounding) in the food category was the fastest advance since August 2022, when pressure was cresting after a post-shutdown surge, with both the costs of food at home (i.e., groceries; seasonally adjusted) and food away from home (i.e., restaurant meals; not seasonally adjusted) jumping by a same-sized increment. Even so, the year-over-year increase of 3.1 percent was below the 2025 peak of 3.2 percent in August with the trend only somewhat above that prior to the onset of the pandemic. Less problematic was the pickup of 0.3 percent in the energy component (+2.3 percent year-over-year, down from +4.2 percent in November and in line with the subdued trend in the two years preceding COVID; chart, below right). In the latest month, a gain of 1.0 percent in the costs of energy services was partially offset by a dip of 0.4 percent in those for energy commodities.

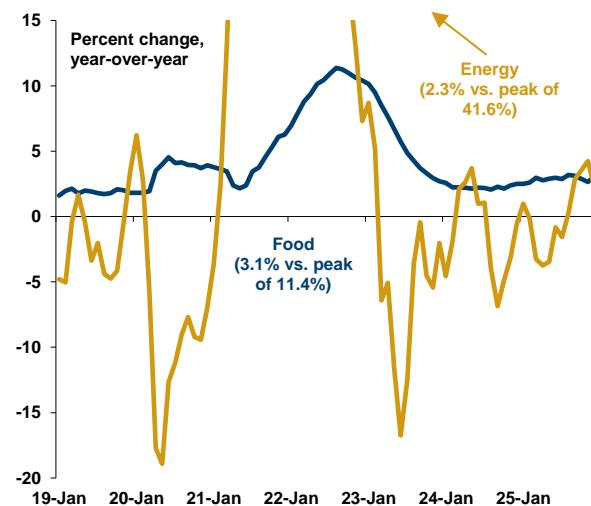
### CPI: Headline & Core\*



\* Peak readings indicate highs for the current economic expansion.

Source: Bureau of Labor Statistics via Haver Analytics

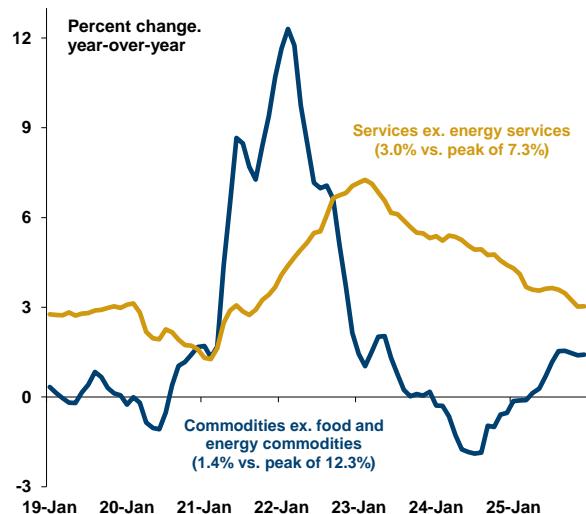
### CPI: Food & Energy



Source: Bureau of Labor Statistics via Haver Analytics

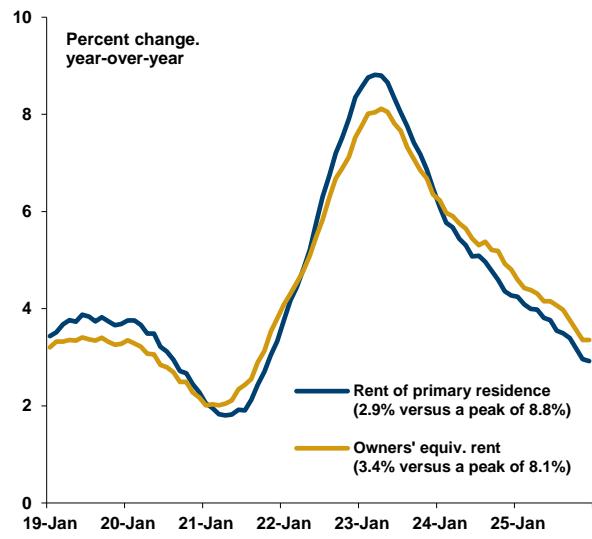
- Turning to core, which rose 0.239 percent month-to-month (well within the 2025 range of +0.057 percent to +0.346 percent), the commodities less food and energy commodities area was flat in December (-0.002 percent), while the services excluding energy services area increased 0.294 percent (+3.0 percent year-over-year, modestly faster than the long-standing pre-pandemic performance). Turning back to core goods, the year-over-year change of +1.420 percent was little changed from +1.391 percent in November and down 0.1 percentage point from the recent high in September – suggesting that tariff-related price pressure may be approaching a plateau (chart, below left). In the latest month, used vehicle prices fell 1.1 percent and new vehicle prices were flat. Contrastingly, apparel prices rose 0.6 percent, perhaps an area still subject to levy-related increases. On the service side, price changes were mixed. For example, airfares surged 5.2 percent and medical care services rose a more modest 0.4 percent, while costs of car and truck rentals dropped 1.4 percent. Importantly, the rent of primary residence component rose 0.3 percent, as did the owners' equivalent rent of residences area. The attendant year-over-year advance of 2.9 percent for rents and 3.4 percent for OER were at or fast approaching pre-pandemic trends (chart, below right). With measures of market rents suggesting further slowing, the shelter area, which compromises the majority of core services, appears poised to play a further role in slowing inflation that we project for 2026. All told, the latest CPI is unlikely to move the needle for the January FOMC meeting, but inflation dynamics this year will allow easier monetary policy in the months ahead.

### Decomposition of Core CPI



Source: Bureau of Labor Statistics via Haver Analytics

### CPI: Housing



Source: Bureau of Labor Statistics via Haver Analytics