

*This Economic Update may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.*

## December Consumer Price Index: Curious Acceleration In Rent Clouds The Message

- The total CPI fell 0.1 percent in December (down 0.079 percent unrounded); the core CPI rose 0.3 percent (up 0.303 percent unrounded)
- On a year-over-year basis, the total CPI is up 6.5 percent and the core CPI is up 5.7 percent as of December

The total CPI fell by 0.1 percent in December with the core CPI rising by 0.3 percent, in each case matching the consensus forecast but a tenth of a point higher than our forecast. As anticipated, lower energy prices were a significant drag on the headline CPI. Our forecast misses mainly reflect rent growth coming in meaningfully higher than we had anticipated, with the CPI measures of rents still more than a little bit out of alignment with market rents and house prices. There were some other surprises in the December data, such as increases in prices for medical care services and appliances which were offset by larger declines in other areas. On the whole, however, the December data fall in line with the broad themes we've been outlining, i.e., falling core goods prices and, outside of shelter costs, slowing growth in services price inflation. Whether the FOMC deems this clear and convincing evidence that inflation is subsiding is for them to decide, but there is nothing in the data that makes a clear and compelling case against dialing down the pace of any subsequent Fed funds rate hikes.

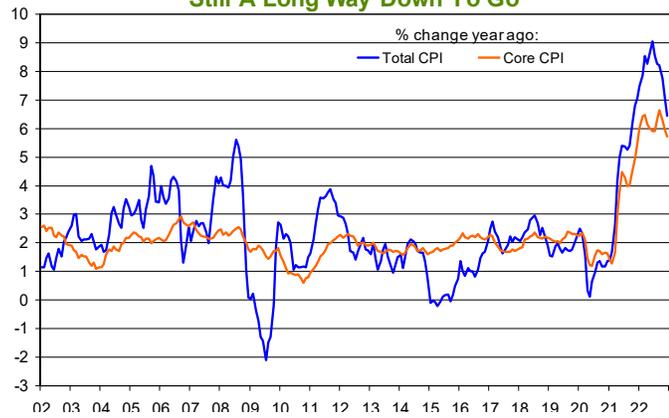
The broad energy index fell by 4.5 percent in December. On a not seasonally adjusted basis, retail gasoline prices fell by more than twelve percent in December which in the seasonally adjusted data translated into a 9.4 percent decline. Prices for home heating oils fell, but prices for natural gas and electricity increased after having fallen in November. With gasoline prices having turned higher this month, energy is unlikely to act as a drag on the headline CPI in January. Food prices were up by 0.3 percent in December, and on an unrounded basis December's increase is the smallest since February 2021. Prices for food consumed at home were up by 0.2 percent and prices for food consumed away from home were up by 0.4 percent. Despite the sharp moderation in the monthly increases, food prices are still up 10.4 percent year-on-year, with prices for food consumed at home up by 11.8 percent year-on-year.

Prices for core goods (consumer goods excluding food and energy) were down by 0.3 percent in December, the third straight monthly decline but the smallest decline in this span. Prices for major appliances rose by 1.0 percent, with prices for laundry equipment jumping 4.1 percent after a string of sizable monthly declines. Other categories within the broad household furnishings and supplies index were a mixed bag, but until housing market activity picks up considerably there is unlikely to be sustained upward pressure on prices for appliances, furniture, and household equipment. Prices for used motor vehicles fell by 2.5 percent in December while prices for new motor vehicles fell by 0.1 percent, the second straight monthly decline. New vehicle prices are coming under pressure from both sides, i.e., dimming demand due in part to higher financing costs and rising supply as motor vehicle production has increased over recent months. Core goods prices were up by 2.1 percent year-on-year, the smallest such increase since March 2021, and we expect continued sequential declines to yield over-the-year declines later in 2023.

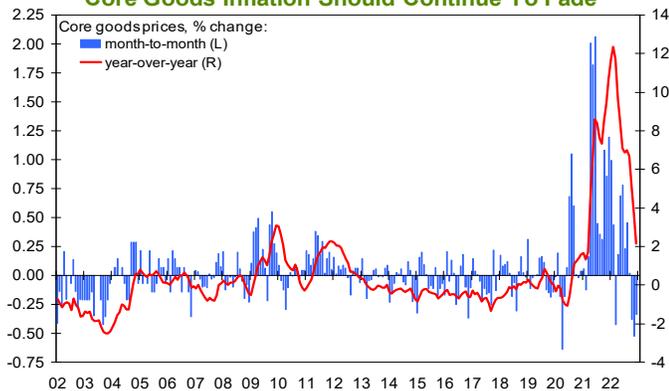
Services prices were up by 0.6 percent in December, doubling November's increase, while core (non-energy) services prices were up by 0.5 percent, a larger increase than that seen in November. While that may suggest services price inflation is moving the wrong way, it is more a reflection of further acceleration in the CPI measures of rent. Owners' equivalent rents were up by 0.8 percent in December while primary rents were up by 0.8 percent, yielding year-on-year increases of 7.5 percent and 8.3 percent, respectively. With house prices and market rents falling in many markets, the CPI measures remain out of alignment with market-based measures, which is a function of the slow turnover in the CPI sample of rental units, and the peak year-on-year increases in the CPI data won't come until late-spring. The all items excluding food, energy, and shelter index has fallen in each of the past three months and December's over-the-year increase was the smallest since April 2021. Looking at core services excluding shelter, however, shows a slight pick-up in pace in December, largely reflecting a reversal of the sharp declines in prices for medical care services in the prior two months. Still, we expect waning demand to take considerable pressure off of ex-shelter services price inflation in the months ahead.



### Still A Long Way Down To Go




### Core Goods Inflation Should Continue To Fade




### Rent Growth Has Plenty Of Catching Up Down To Do . . .

