ECONOMIC UPDATE

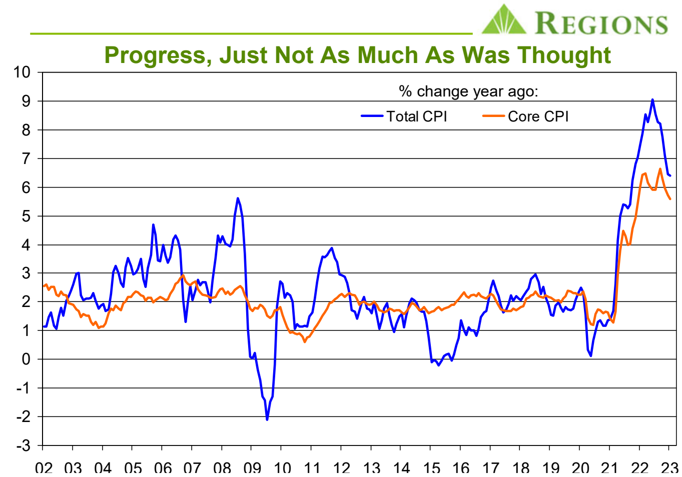
REGIONS

February 14, 2023

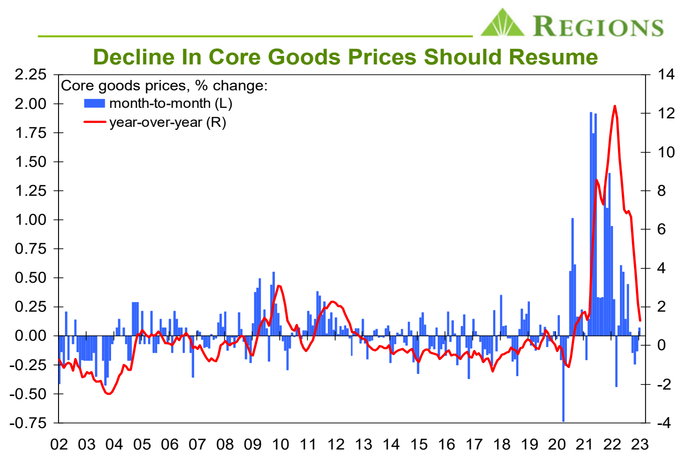
January Consumer Price Index: Progress, Just Not As Much As Was Thought

- The total CPI rose 0.5 percent in January (up 0.517 percent unrounded); the core CPI rose 0.4 percent (up 0.411 percent unrounded)
- On a year-over-year basis, the total CPI is up 6.4 percent and the core CPI is up 5.6 percent as of January

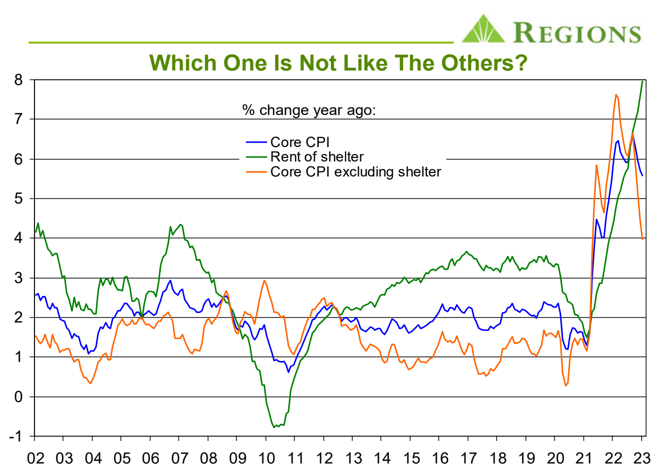
The total CPI rose by 0.5 percent in January with the core CPI rising by 0.4 percent, in each case matching the consensus forecast but a tenth of a point higher than our forecast. As anticipated, higher energy prices were a support for the headline CPI, and while the pace of rent growth slowed slightly as our forecast anticipated, much larger increases in prices for medical care commodities and for household appliances helped push both the headline and core CPI above where we thought they'd land. As we noted in our weekly *Economic Preview*, the January CPI data incorporate revised seasonal adjustment factors which were applied to the past five years of data, resulting in revisions to previously released seasonally adjusted data. Additionally, the 2023 data incorporate new expenditure weights (recall the CPI is constructed as a fixed basket of consumer goods and services) using consumer expenditure data from 2021. This is a break from the past as now only a single year of expenditure patterns is used to estimate expenditure weights as opposed to the past practice of using two years of expenditure weightings. In the new basket rents, household furnishings, and recreation carry higher weights, while food away from home and transportation (particularly used motor vehicles) carry lower weights. These shifting weights impacted the January/December comparisons, but perhaps the bigger impact will be going forward once the CPI data more fully capture what over the past several months have been weakening market rents and the impact of lower house prices impacts owners' equivalent rents. For now, though, with the revised data showing a less pronounced deceleration in both headline and core CPI inflation than had previously been reported and the January data showing larger monthly increases, there are growing concerns that the FOMC will push higher and stay there longer than had been anticipated.



The broad energy index rose by 2.0 percent in January, with gasoline prices up by 2.3 percent and prices for electricity and gas also pushing higher, more than offsetting lower prices for home heating oils. The increase in retail gasoline prices seen in January were mainly a reflection of refinery outages that have since been resolved, and gasoline prices have fallen through the first half of February and will be a drag on the headline CPI for February. Food prices were up by 0.5 percent in February, with prices for food consumed at home posting a like-sized gain and prices for food consumed away from home rising by 0.6 percent. On a year-on-year basis, the overall index of food prices is up by 10.1 percent with prices for food consumed at home up by 11.3 percent and prices for food consumed away from home up 8.2 percent. In that latter index, it is interesting to note that prices for food at employee and school sites and prices for food from vending machines and mobile vendors are up by more than are prices at full service restaurants.



Prices for core goods (consumer goods excluding food and energy) rose by 0.1 percent in January, ending a run of three monthly declines. As noted above, outsized increases in prices for medical care commodities (entirely driven by higher prices for prescription drugs) and household appliances were prime contributors, as was a jump in apparel prices that is largely seasonal adjustment noise. While market-based measures of used vehicle prices jumped in January, the CPI data lag such measures, to the point that the CPI data show a 1.9 percent decline in used vehicle prices in January. But, with a sharply lower weight in the new CPI basked, this reported decline in used vehicle prices was a smaller drag on core goods prices than it would have been last year.



Both primary rents and owners' equivalent rents rose by 0.7 percent in January, smaller gains than in December but still yielding year-on-year increases of 8.6 percent and 7.8 percent, respectively. It will be a few more months before the CPI data more fully pick up the considerable softening in market rents, but with rents carrying a heavier weight in this year's CPI basket, the deceleration in core CPI inflation will be made to look much more rapid. This is one reason there is now so much focus on services prices excluding rents, which logged a second straight monthly increase of 0.6 percent and on an over-the-year basis continue to run at a better than seven percent clip. Unless and until there is more progress in this category, the FOMC won't consider its work close to being done.

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