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## December Consumer Price Index: Services Prices The Main Hub Of Inflation Pressures

- The total CPI rose by 0.3 percent in December (up 0.303 percent unrounded); the core CPI rose by 0.3 percent (up 0.301 percent unrounded)
- On a year-over-year basis, the total CPI is up 3.4 percent and the core CPI is up 3.9 percent as of December

The total CPI and the core CPI each rose by 0.3 percent in December, in each case matching our forecast. Recall that in each of the prior two months, falling gasoline prices knocked two-tenths of a point off the monthly change in the headline CPI, a drag absent from the December data. Additionally, as we noted in this week's *Economic Preview*, a lift from seasonal adjustment pushed up the reads on certain categories, including apparel, lodging and air fares, which in no small part accounts for the monthly change in the core CPI printing as 0.3 percent. To that point, the total CPI was down by 0.1 percent and the core CPI was up by 0.1 percent on a not seasonally adjusted basis. Core goods prices remained under downward pressure in December, with higher vehicle prices mitigating the impact on the overall core goods price index, but lower goods prices are one factor that could make the December retail sales data, due on January 17, look misleadingly weak. Core services remain the main hub of inflation pressures, and while lagging measures of rents continue to skew the overall index of core services higher, stripping shelter costs out of the equation still leaves us with fairly sticky core services price inflation. In short, the December CPI data do nothing to change our view on the most likely trajectory of inflation over coming months, and we do not think the December data will have an impact, either way, on the thinking within the FOMC. New York Fed President Williams gave perhaps the most succinct summary of the collective view of the FOMC yesterday, when he noted that while the Fed funds rate is high enough to accomplish the Committee's inflation objectives, the inflation data suggest it is too soon yet for Fed funds rate cuts.

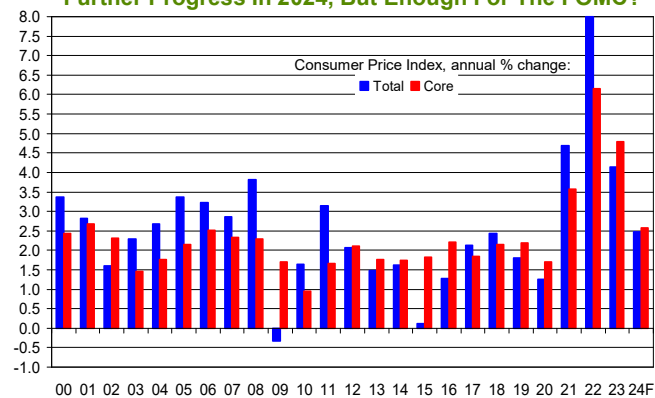
The broad energy index rose by 0.4 percent in December after substantial declines in the prior two months. That falling gasoline prices weren't a drag on the December CPI doesn't mean gasoline prices didn't fall in December. They did indeed decline, with prices down 5.4 percent on a not seasonally adjusted basis. That decline, however, is smaller than the typical December decline, such that on a seasonally adjusted basis the CPI data show gas prices up by 0.2 percent. Keep in mind that a key reason this December's decline was smaller than is normal for the month is that gasoline prices had fallen so sharply over the prior two months. Retail pump prices have fallen in the first two weeks of January and will remain under downward pressure, so regardless of how those declines are treated in the CPI data, consumers will surely notice. We suspect sustained sharp declines in gasoline prices are a prime factor in easing inflation expectations amongst consumers. Moderating food price inflation is also likely playing a role; prices for food consumed at home rose by 0.1 percent in December, leaving them up 1.3 percent year-on-year, the smallest such gain since June 2021. The rate at which prices for food consumed away from home are rising is moderating, but at a much slower pace.

The index of core goods prices was flat in December but, as noted above, rising vehicle prices acted as a counter to declines in other categories, including furniture, appliances, and electronics. The BLS's measure of core goods prices excluding used motor vehicles fell by 0.1 percent in December, leaving it up 0.4 percent year-on-year. The index of core services prices rose by 0.5 percent in December, leaving it up 5.3 percent year-on-year. Primary rents rose by 0.4 percent in December while owners' equivalent rents were up by 0.5 percent, leaving the latter up 6.3 percent year-on-year. House prices proving more resilient than had been anticipated may be helping sustain the monthly increases in owners' equivalent rents, and given the relative weightings, this will continue to bias the core CPI's measure of core services prices higher even as the CPI measure of market rents continues to moderate in the months ahead. Another source of persistent upward pressure on core services inflation in the CPI is the cost of health insurance premiums which, thanks to the CPI's quirky methodology, will show hefty monthly increases until the October update.

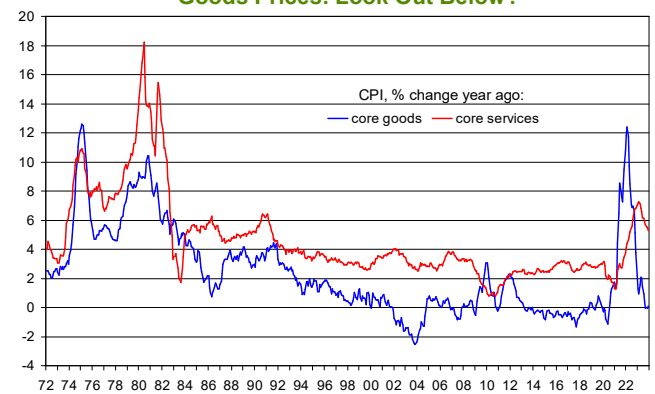
On an annual average basis, the total CPI rose by 4.1 percent in 2023, with the core CPI up by 4.8 percent, ugly numbers which nonetheless feel better in the context of the prior two years. While we expect further deceleration in inflation in 2024, that will still leave inflation running considerable faster than the pre-pandemic trend rate.



### Further Progress In 2024, But Enough For The FOMC?



### Goods Prices: Look Out Below?



### Fewer, But Persistent, Footholds For Inflation

