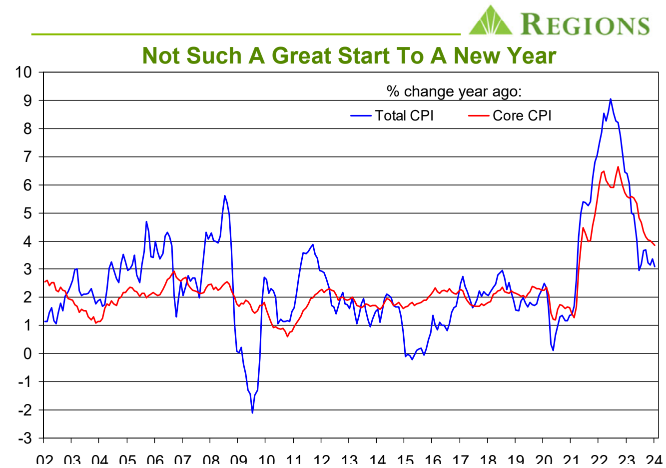
ECONOMIC UPDATE
REGIONS
February 13, 2024

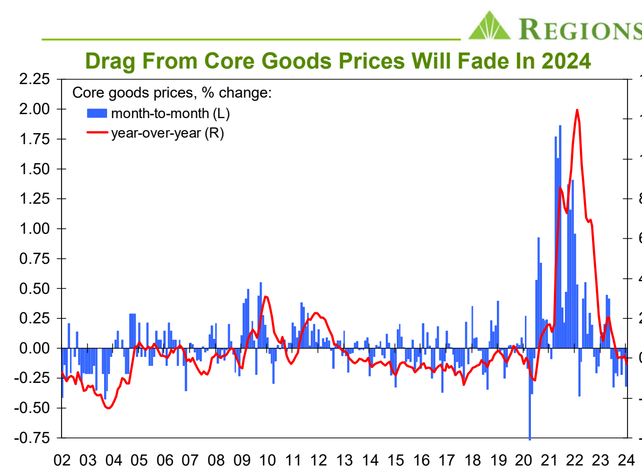
January Consumer Price Index: Not Such A Great Start To A New Year

- The total CPI rose by 0.3 percent in January (up 0.305 percent unrounded); the core CPI rose by 0.4 percent (up 0.392 percent unrounded)
- On a year-over-year basis, the total CPI is up 3.1 percent and the core CPI is up 3.9 percent as of January

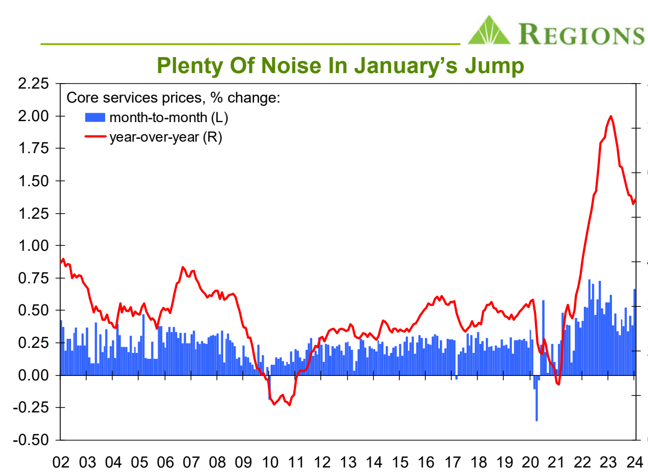
Perhaps the only surprise is that anyone is surprised. After all, start with a month in which price changes can be lumpy, add in revised expenditure weights, blend in some weather effects, then toss in some seasonal adjustment noise, revised seasonal adjustment factors notwithstanding, and you have a recipe that lends itself to surprises. To that point, the total CPI rose by 0.3 percent in January, one-tenth more than what we and the consensus expected, while the core CPI rose by 0.4 percent, matching our above-consensus forecast. On an over-the-year basis, the total CPI is up 3.1 percent and the core CPI is up 3.9 percent. Okay, we'll admit to being surprised by the extent to which food prices rose in January, but recall that in this week's *Economic Preview* we discussed our premise that the January CPI would not necessarily be a clean read on underlying inflation pressures, and we see nothing in the data that leads us to let go of that premise. To be sure, for those in a rush to make sweeping generalizations about what all of this means for FOMC meetings months down the road – the March meeting not having been in play either way – nuance only gets in the way. We, however, are big fans of context, and also get that the economic data never move in straight lines. So, while not dismissing the January CPI report out of hand, neither will we attach too much weight to it. We will note that the inflation data could remain a source of upset in the months ahead; what have been rapidly rising gasoline prices will add to headline inflation after having been a drag in three of the past four months. To the extent that the FOMC is willing to look past this, that still leaves core services excluding shelter as the primary marker of core inflation pressures.



The total food price index rose by 0.4 percent in January, double the increases in each of the past two months, with prices for food consumed at home up 0.4 percent and prices for food consumed away from home up by 0.5 percent. It is worth noting that prices for fresh vegetables were up 2.4 percent after having fallen by 0.7 percent in December, which could easily reflect effects of the unusually harsh winter weather that gripped much of the nation in January. For a second straight month, egg prices rose by better than three percent. The increase in prices for food consumed away from home was driven by higher prices at both limited service and full service restaurants, which to some extent likely reflect increases in labor costs. The broad energy index fell by 0.9 percent in January, with retail gasoline prices down 3.3 percent on a seasonally adjusted basis, which took one-tenth of a point off the monthly change in the total CPI. While prices for home heating fuels fell, prices for residential gas service and electricity rose sharply.



The index of core goods prices fell by 0.3 percent in January. Note, however, that a 3.4 percent decline in prices for used motor vehicles more than accounted for the drop in the index of core goods prices; excluding used motor vehicles, prices for core consumer goods were up by 0.1 percent, more in line with our premise that core goods prices would be little changed, one way or the other in 2024. We do, however, see the risks to that call being to the upside given rising shipping costs. Though this could simply reflect our stubborn insistence on offering context, we think it worth noting that prices for electronics, furniture, and appliances were up sharply on a seasonally adjusted basis despite the not seasonally adjusted data showing sharp declines in each of these categories. The index of core services prices rose by 0.7 percent in January, leaving it up 5.4 percent year-on-year. The CPI data on primary (market) rents remain starkly at odds with market-based measures, but the bigger impact on the January data came from the 0.6 percent increase in owners' equivalent rents, the largest monthly increase since April. That owners' equivalent rents are proving so stubborn could reflect how resilient house prices have been, which may be biasing homeowners' assessments of the rental value of their homes. Either way, rents account for over forty-three percent of the core CPI in the 2024 weightings but are not nearly as impactful in the PCE Deflator, which the FOMC sees as the most meaningful measure of price changes. As we suspected, declines in hotel rates and air fares on a not seasonally adjusted basis were turned into meaningful increases on a seasonally adjusted basis. Either way, prices for core services ex-shelter remain the primary hub of inflation pressures.



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