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February Consumer Price Index: Progress Getting Harder To Come By

- The total CPI **rose** by 0.4 percent in February (up 0.443 percent unrounded); the core CPI **rose** by 0.4 percent (up 0.358 percent unrounded)
- On a year-over-year basis, the total CPI is **up** 3.2 percent and the core CPI is **up** 3.8 percent as of February

The total CPI rose by 0.4 percent in February, matching the consensus forecast but falling a bit, literally, short of the 0.5 percent increase our forecast anticipated, and the core CPI was also up by 0.4 percent, matching our above-consensus call. On an over-the-year basis, the total CPI is up 3.2 percent and the core CPI is up 3.8 percent, in each case matching our above-consensus forecast. A look at the unrounded changes in the total and core CPI affirms a point we made in this week’s *Economic Preview*, which is that the differences between our forecasts, the consensus forecasts, and the actual data would likely amount to little more than rounding errors; our unrounded forecasts yielded a 0.462 percent increase in the total CPI and a 0.364 percent increase in the core CPI. That the differences between the actual and expected prints are so small may account for the markets seeming to be taking the February CPI data in stride. Sure, that’s how we almost always react to any given data release, but it can be argued that the February CPI data do nothing to rule out the first Fed funds rate cut coming in June, as had been priced into the markets prior to the release of the data. In other words, the markets seem to be channeling their inner Lloyd Christmas – “so, you’re saying there’s a chance?” – as they assess what the February CPI data may mean for the FOMC. For the record, it’s not an old movie, it’s a timeless classic. Either way, we’re not sure the February CPI report is all that instructive as to the extent of inflation pressures in the U.S. economy given some of the curious details in the data.

As expected, higher energy prices were a support for the total CPI, with the total energy price index up by 2.3 percent, led by a 3.8 percent increase in retail gasoline prices. Prices for residential gas service were up by 2.0 percent, following a 2.3 percent increase in January, while electricity prices rose by 0.3 percent, the smallest monthly increase since August. As we’ve noted elsewhere, February saw gasoline prices transition from a drag on the total CPI to a driver of the total CPI, and we expect higher retail gasoline prices to add to the total CPI over the next several months. Food prices were flat in February, easily accounting for our forecast miss on the total CPI, with prices for food consumed at home unchanged and prices for food consumed away from home up by just 0.1 percent, the smallest such increase since March 2021. Though the February data show some relief from higher food prices, the cumulative increase in the overall food index since February 2020 is 25.2 percent and the cumulative increase in gasoline prices is 32.5 percent, which no doubt helps account for why consumers aren’t exactly celebrating a slower pace of advance.

The index of core goods prices rose by 0.1 percent in February but is still down on an over-the-year basis for a second straight month. It is somewhat odd that the CPI data show a 0.5 percent increase in prices for used motor vehicles, though this series has been so at odds with market-based measures for so long it’s hardly worth investing too much effort in trying to explain it. Apparel prices are reported to have risen 0.6 percent in February, which is consistent with normal seasonal patterns (the unadjusted apparel index was up 3.2 percent). Prices for household furnishings and appliances fell in February and remain down on a year-on-year basis, but prices for electronics and audio equipment are reported to have firmed up over the past two months. The February data on core goods prices excluding used motor vehicles alleviate but do not eliminate our concerns that higher input costs and higher shipping costs could be sources of steady upward pressure on core consumer goods over the course of this year. Recall that our 2024 forecast anticipated core goods prices being more or less a neutral factor for core inflation after having been a drag in 2023.

The index of core services prices was up by 0.46 percent in February after having risen by 0.66 percent in January. After wreaking havoc on the January data, owners’ equivalent rents were better behaved in February, rising by 0.4 percent, but at the same time primary rents are reported to, somewhat curiously, have risen by 0.5 percent. Prices for medical care services are reported to have fallen by 0.1 percent in February, which includes a 0.6 percent decline in costs for hospital services. These surprising declines seem unlikely to be sustained in the months ahead. Prices for discretionary services were mixed, and the path of this category will be a prime driver of overall services inflation in the months ahead.

