ECONOMIC UPDATE

REGIONS

January 15, 2025

December Consumer Price Index: Core CPI Brings Relief, But Doesn't Really Change Much

- The total CPI rose by 0.4 percent in December (up 0.393 percent unrounded); the core CPI rose by 0.2 percent (up 0.225 percent unrounded)
- On a year-over-year basis, the total CPI is up 2.9 percent and the core CPI is up 3.2 percent as of December

Never has so much – 3.2 percent – core inflation felt so good . . . Okay, perhaps not but, judging from the immediate reaction to the report on the Consumer Price Index for December, pegged by some prior to its releasee as "the most important read on inflation in recent memory" (a title the December report will hold until, well, you know, the January report), many seem to feel that way. The total CPI rose by 0.4 percent in December, and while that matched what we and the consensus forecast expected, it was the 0.2 percent increase in the core CPI that brought cheer to many analysts and market participants; we and the consensus forecast expected the core CPI to be up by 0.3 percent. On a year-on-year basis, the total CPI is up 2.9 percent while the core CPI is up 3.2 percent, down from prints of 3.3 percent in each of the prior three months and marking the first tick down in the year-on-year percentage change since July. That the core CPI came in a touch lighter than we anticipated largely boiled down to there being less seasonal adjustment noise than we had anticipated in components such as apparel and lodging while, as expected, seasonal adjustment of gasoline prices accounted for almost one-half of the increase in the total CPI. In other words, after accounting for seasonal adjustment, the December CPI data don't look all that different than we had anticipated, and our reaction to the lower print on the core CPI is no different than would have been our reaction had the core CPI printed at 0.3 percent. We suspect that as people sift through the details of the December data, they'll see little change in the inflation story, which is that inflation is proving to be more persistent than many had anticipated with upside risks lurking in the form of potential changes to trade and immigration policies.

December was a strong month for travel services, which was reflected in market-based measures of lodging rates and air fares showing atypical seasonal strength. The CPI data, however, show fairly tame lodging costs, which translated into a 1.0 percent decline on a seasonally adjusted basis. In the case of air fares, the not seasonally adjusted CPI data show a smaller than normal December decline which, in the seasonally adjusted data, translated into an increase of 3.9 percent. We had also anticipated the seasonally adjusted data to show a larger increase in apparel prices than the 0.1 percent print. It is also worth noting that the increase in the total CPI was, well, inflated by retail gasoline prices being up 4.4 percent in December, entirely the result of a boost from seasonal adjustment. Unadjusted gasoline prices fell by 1.1 percent in December, but as this was well smaller than the typical December decline, seasonal adjustment basically overcompensated, hence the 4.4 percent increase reported on a seasonally adjusted basis. As noted above, this accounted for just under one-half of the monthly increase in the total CPI.

Food prices rose by 0.3 percent in December, as our forecast anticipated, leaving them up 2.5 percent year-on-year, the largest such increase since January. The index of overall energy costs was up 2.6 percent with hefty increases in electricity rates and prices for residential gas service. Overall core goods prices rose by 0.1 percent, but much of the "support" here came from higher prices for new (up 0.5 percent) and used (up 1.2 percent) motor vehicles. Stripping out used motor vehicles, core goods prices fell by 0.1 percent in December, leaving them down 0.2 percent year-on-year. There are two points worth noting here; first, reports of aggressive discounting during the holiday sales season likely played a role in the soft December print; second, the prospect of expanded tariffs figures to put at least some upward pressure on core goods prices as we move through 2025, which means that core goods prices could ultimately transition from being a drag on to at least a modest driver of core inflation.

As we anticipated, the monthly increases in primary and owners' equivalent rents were a bit firmer in December than was the case in November, but this nonetheless still yielded slightly smaller year-on-year increases in the December data. The moderation in rent growth apparent in market based measures some time ago is finally working its way through the CPI data, only at an excruciatingly slow pace. Aside from shelter, core services inflation is slowing but nonetheless remains somewhat persistent.

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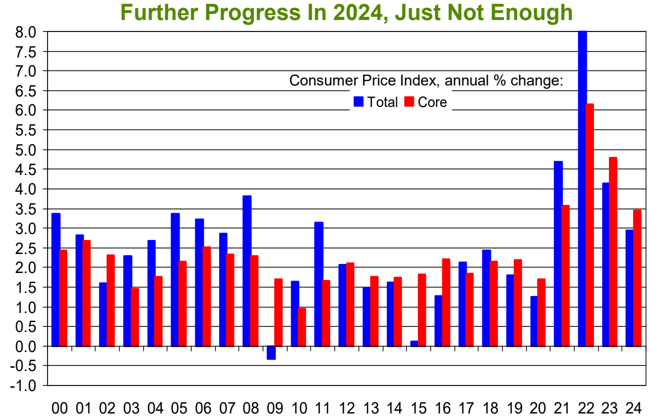
Further Progress In 2024, Just Not Enough



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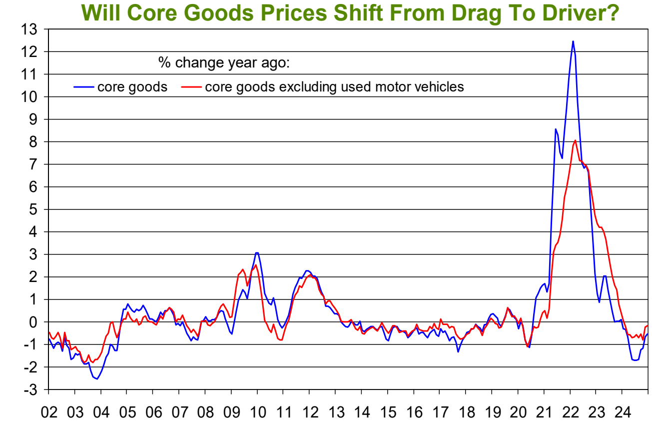
Will Core Goods Prices Shift From Drag To Driver?



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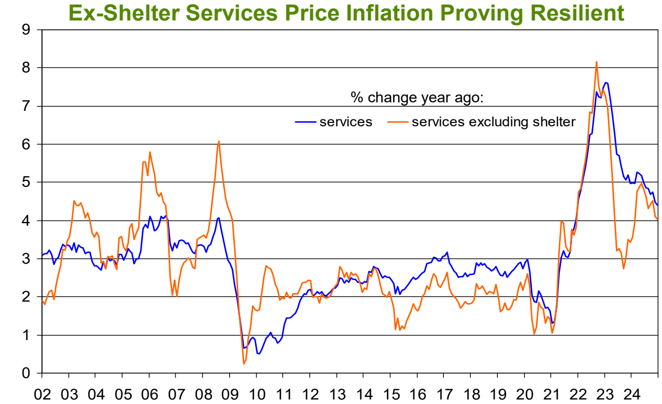
Ex-Shelter Services Price Inflation Proving Resilient



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