ECONOMIC UPDATE

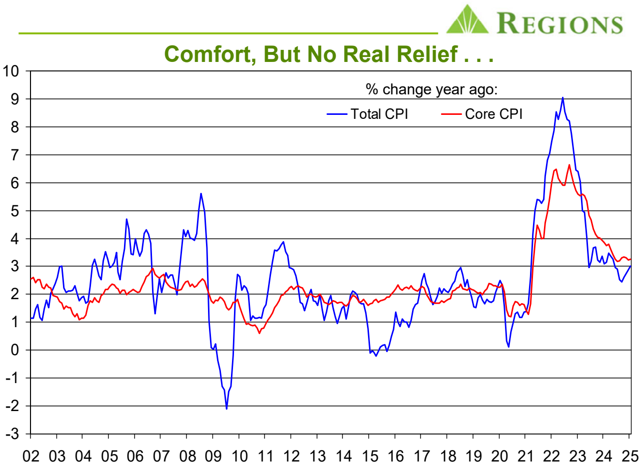
REGIONS

March 12, 2025

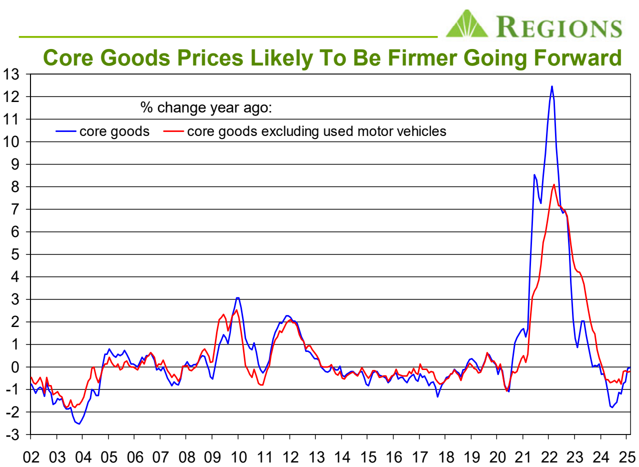
February Consumer Price Index: Comfort, At Least For Now, But No Real Relief . . .

- The total CPI rose by 0.2 percent in February (up 0.216 percent unrounded); the core CPI rose by 0.2 percent (up 0.227 percent unrounded)
- On a year-over-year basis, the total CPI is up 2.8 percent and the core CPI is up 3.1 percent as of February

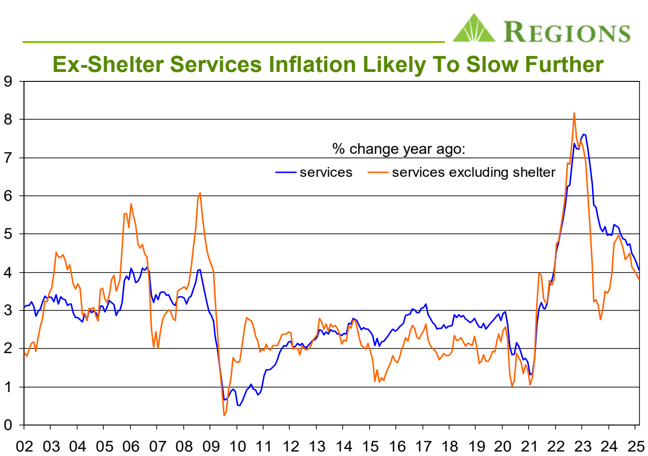
Both the total CPI and the core CPI rose by 0.2 percent, in each case matching our forecast but shy of the 0.3 percent increases the consensus forecast anticipated. On a year-on-year basis, the total CPI is up 2.8 percent as of February and the core CPI is up 3.1 percent. Though the February prints may have elicited a huge sigh of relief from market participants who've been whipsawed by rapidly changing policy that, on net, seems likely to push growth lower while pushing inflation higher, any sense of relief may prove short-lived. For one, there seems to be less of an early-year push from residual seasonality as seen over the prior few years, and it is also worth noting that softer demand for discretionary services, most notably air fares, in February weighed on prices. While the former is merely noise in the data, the latter reflects growing concerns amongst many analysts, including us, over what look to be dimming prospects for growth. Moreover, to the extent higher and broadly based tariffs put upward pressure on goods prices, that will be a source of upward pressure on both headline and core inflation given that food prices will also be impacted. The offsets figure to be lower energy prices and further moderation in rent growth, but the extent to which these offsets materialize is rather uncertain. It could be that the most likely outcome is inflation neither pushing meaningfully higher nor moving meaningfully lower which, even with growth prospects fading, could keep the FOMC on hold barring more substantial deterioration in labor market conditions than many are at present anticipating.



Overall food prices rose by 0.2 percent in February, the most surprising element of which is that prices for food consumed at home were flat after a three-month run of hefty increases. While egg prices did increase another 10.4 percent, following a 15.2 percent increase in January, there were declines in other categories, including fruits, vegetables, and poultry, while the 2.4 percent decline in cookie prices no doubt explains why a certain colleague has been in such good spirits of late. At the same time, however, prices for food consumed at home were up 0.4 percent in February, the largest monthly increase since last June and seemingly at odds with reports of softer demand. The total energy index was up by 0.2 percent, in February. Though retail gasoline prices rose on a not seasonally adjusted basis, that increase was smaller than the typical February increase, which yielded a 1.0 percent decline in the seasonally adjusted data. At the same time, however, sharply higher demand stemming from another round of atypically harsh winter weather helped push prices for residential gas service up by 2.5 percent and electricity rates up by 1.0 percent.



Core goods prices were up by 0.2 percent in February on the heels of a 0.3 percent increase in January, marking the strongest back-to-back increases since 2021. Some of that support, however, has come from further increases in prices for used motor vehicles. As a side note, the recent increases in used vehicle prices have in part stemmed from seasonal adjustment, as prices on the wholesale level have weakened over recent months. Our preferred measure of core goods prices excludes used motor vehicles, and that measure was up by 0.1 percent in February. One difference between our forecast of the core CPI and the consensus forecast is that we assumed less of an impact from the higher tariffs imposed on imports from China in February than did many other analysts. There is, however, no clear evidence in the CPI data. For instance, furniture prices fell in February, but prices for major appliances rose by 1.4 percent, which could reflect consumers pulling purchases forward to avoid even higher tariffs, but at the same time electronics prices declined in February.



Both primary and owners' equivalent rents rose by 0.3 percent in February, yielding year-on-year increases of 4.1 percent and 4.4 percent, respectively, the smallest such increases since early-2022. Increases in ex-shelter services prices moderated in February, part of which reflects softening demand for discretionary services. Not seasonally adjusted air fares fell by 1.2 percent, after average February increases of 6.1 percent over the prior three years, and while unadjusted lodging rates did rise, that increase was smaller than the usual February increase. Wavering consumer confidence, including worries over labor market conditions, is weighing on discretionary services spending, which will be reflected in softer pricing as we are coming upon a period of what is typically seasonally strong demand.

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