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## January Consumer Price Index: Soft Print Welcome, But Doesn't Settle The Question

- The total CPI **rose** by 0.2 percent in January (up 0.171 percent unrounded); the core CPI **rose** by 0.3 percent (up 0.295 percent unrounded)
- On a year-over-year basis, the total CPI is **up** 2.4 percent and the core CPI is **up** 2.5 percent as of January

The total CPI rose by 0.2 percent in January, below the 0.3 percent increase we and the consensus anticipated, while the core CPI was up by 0.3 percent, matching the consensus forecast but shy of the 0.4 percent increase we anticipated. On an over-the-year basis, the total CPI is up 2.4 percent as of January while the core CPI is up 2.5 percent. We continue to maintain, however, that the year-on-year changes are biased lower as the October data were not collected due to the government shutdown. With BLS assuming, per their standard methodology, that prices for most CPI components were unchanged in October, the year-on-year comparisons are in reality more of an eleven-month change. Looking through the not seasonally adjusted data, there does not seem to be much evidence of the residual seasonality that in recent years has biased the monthly increases for January and, to a lesser extent, February higher. We can trace most of our forecast miss on the core CPI to a large decline in used vehicle prices, milder increases in primary and owners' equivalent rents than seen in December, and tame lodging costs. These also weighed on the monthly change in the total CPI but not nearly to the same extent as a sizable decline in gasoline prices. At the same time, though, core goods prices excluding used motor vehicles posted the largest monthly advance since February 2023, perhaps suggesting further tariff pass-through. Though the moderation in headline inflation is welcome news, there are enough crosscurrents in the details of the data to suggest disinflation is firmly entrenched.

The overall index of energy prices was down by 1.5 percent in January, largely reflecting a 3.2 percent decline in retail gasoline prices that knocked one-tenth of a point off the monthly change in the total CPI. That drag will reverse in the February data as gasoline prices are up sharply between mid-January and mid-February. The 1.0 percent increase in residential gas service seems a bit mild in light of harsh winter weather over the final week of January, making this a potential source of upward pressure in the February CPI data. The overall index of food prices was up by 0.2 percent in January, with prices of food consumed at home also up by 0.2 percent and prices for food consumed away from home up 0.1 percent. These more trend-like increases make the jumps in December, when total food prices rose by 0.7 percent, look like one-off outliers.

Core goods prices were up by 0.2 percent in January, yielding a year-on-year increase of 1.1 percent, the smallest such increase since July. A 1.8 percent decline in prices of used motor vehicles, however, was a significant weight on the broad index of core (non-food, non-energy) goods prices and is at odds with price movements on the wholesale level. We have for some time pointed to the BLS's index of core goods prices excluding used motor vehicles as the more reliable gauge of trends in core goods prices, and this measure was up by 0.4 percent in January and is up 1.6 percent year-on-year, the highest such reading since September 2023. We had suspected that once the 2025 holiday shopping season had come and gone, firms might attempt to be more aggressive with tariff pass-through, and while nothing is proven by a single month's data, we'll continue to track this measure of core goods prices for evidence of further tariff pass-through, or the lack thereof.

Core services prices were up 0.4 percent in January, which seems mild given what were softer increases in rents, with primary rents and owners' equivalent rents each rising by 0.2 percent. Though it carries relatively little weight, there was a bizarrely large decline in costs of financial services, down by 10.0 percent in January, with a 13.8 percent decline in tax preparation and accounting fees the main culprit. No doubt that amongst those of us who still use humans for tax prep, we won't be the only ones pointing this out to them. Also, contrary to our expectations, insurance rates were down across the board – medical, homeowners, and auto. There was a hefty increase in air fares, and while lodging rates were up 2.7 percent on a not seasonally adjusted basis, this was smaller than the last few January increases, hence the 0.1 percent decline reported in the seasonally adjusted data.

Despite a January print that was a bit on the soft side, the path of inflation is far from set in stone. With signs of a stabilizing labor market, the inflation data may make the FOMC a bit more comfortable remaining on the sidelines for a while longer.

