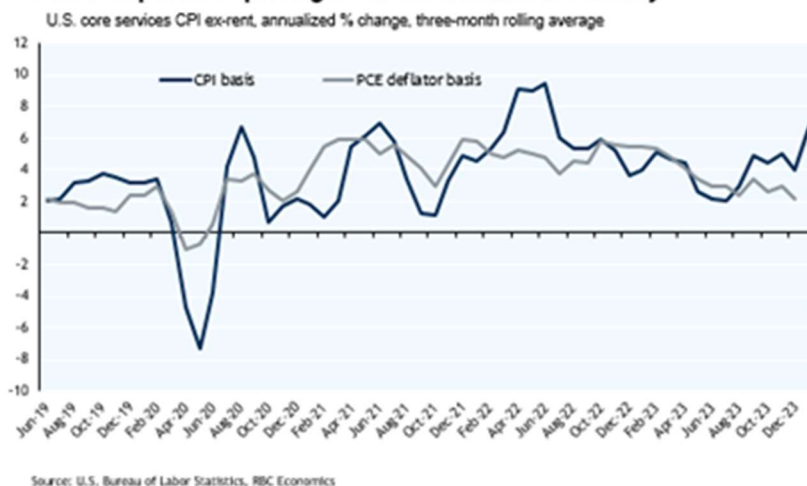


February 13, 2024

U.S. CPI growth shows underlying signs of inflation reacceleration

- The year-over-year rate of CPI growth slowed less than expected in January - to 3.1% from 3.4% year-over-year with core (ex-food and energy) price growth unexpectedly holding steady at 3.9%
- Energy and food price growth both slowed largely as expected - to -4.6% for energy prices and +2.6% (from 2.7% in December) for food prices year-over-year growth rates.
- A 0.4% month-over-month increase in core prices was the largest since May 2023. Shelter prices are still disproportionately pushing core prices higher, with home rents accounting for over half of the January month-over-month rise.
- But price pressures showed signs of broadening under the surface. Non-energy commodity prices continued to decline, but prices for core services ex-rents - one of the Federal Reserve's preferred measures of domestically driven inflation - surged 0.8% month-over-month in January (and is up an annualized 6.7% over the last three months)
- The share of products growing at above a 3% annualized rate over the last three months rose to 47%, the highest share since May 2023 by our count.
- **Bottom line:** A disproportionate share of price growth is still coming from the lumpy shelter/rent component. But broader signs of reacceleration in inflation pressures coming in the wake of another surge in employment and faster wage growth in January are reinforcing the risk that the Fed won't need (or be able to) pivot to interest rate cuts as quickly or aggressively as previously expected. No members of the Fed's policy setting committee expect to hike interest rates further, and our own base case has long assumed the central bank will pivot to gradual rate cuts by mid-year. But that outlook is

Fed's 'supercore' price growth accelerated in January



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contingent on a softening economic backdrop and easing inflation pressures, with risks tilting to a later and/or slower pace of cuts should the run of resilient inflation and economic growth numbers persist.

U.S. CPI Growth				
	<u>Oct-23</u>	<u>Nov-23</u>	<u>Dec-23</u>	<u>Jan-24</u>
	<i>month-over-month percent change</i>			
Headline CPI	0.1	0.2	0.2	0.3
Food prices	0.3	0.2	0.2	0.4
Energy prices	-2.1	-1.6	-0.2	-0.9
Core CPI	0.2	0.3	0.3	0.4
Commodities	0.0	-0.2	-0.1	-0.3
Shelter	0.3	0.4	0.4	0.6
Medical care services	0.2	0.5	0.5	0.7
Transportation services	0.9	1.0	0.1	1.0
	<i>year-over-year percent change</i>			
Headline CPI	3.2	3.1	3.4	3.1
Food prices	3.3	2.9	2.7	2.6
Energy prices	-4.5	-5.4	-2.0	-4.6
Core CPI	4.0	4.0	3.9	3.9
Commodities	0.1	0.0	0.2	-0.3
Shelter	6.7	6.5	6.2	6.0
Medical care services	-2.0	-0.9	-0.5	0.6
Transportation services	9.2	10.1	9.7	9.5

Source: Bureau of Labor Statistics, RBC Economics Research