

March 12, 2024

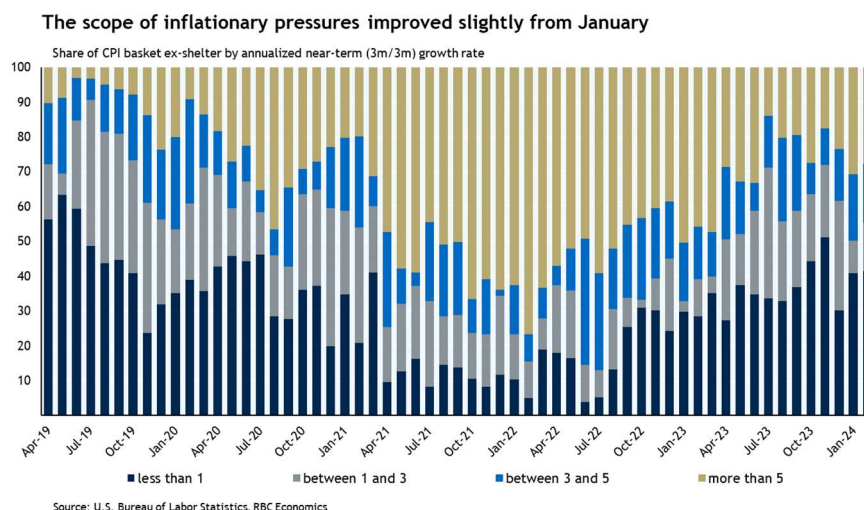
## Small relief in February's US CPI print

- US headline inflation was again above consensus in February, at 3.2% year-over-year. Details weren't as concerning as the broadly-based upward surprise in January inflation data, but were still strong.
- Food inflation in February dropped to 2.2% year-over-year, the lowest since May 2021.

Prices did not move on a seasonally adjusted basis from

January for both groceries and dining out. On a year-over-year basis, grocery inflation dropped to 1% while inflation for dining out was higher, at 4.5%.

- Energy inflation rose in February upon higher prices for gasoline (+3.8% from January). On a yearly basis, prices for energy products were still 1.9% below where they were last February.
- Excluding food and energy products, core CPI in February slowed to 3.8% on a larger-than-expected 0.4% rise from January (pre-release expectations were for 3.7% yoy and 0.3% mom in core CPI). That's still high after having eased persistently to 0.2%-0.3% over the second half of last year.
- Also on a month-over-month basis, core services CPI ex-energy slowed to a still-elevated 0.5% after surging by 0.7% in January. The Fed's preferred core measure – services CPI less energy and home rent registered a similar increase in February, up 0.5% over month after the 0.8% rise in January.
- Rent costs continue to account for a disproportionately large share of inflation pressures in the U.S. – roughly 60% of monthly increases in core CPI over the last three months. We still expect that portion to ultimately slow, as easing in market rent measures feeds through to leases with a lag.



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- **Bottom Line:** February's US CPI readings provided a small relief after January's surprise - different gauges of core inflation all showed improvement, and the breadth of inflation pressures also narrowed. But prices are still rising faster than normal, raising concerns on upside inflation risks against a very resilient economic backdrop. Fed chair Powell recently reiterated a commitment to move rates lower this year. We continue to expect the Fed to start cutting in June, with risks to a slower pace after than we were previously expecting.

U.S. CPI Growth				
	<u>Dec-23</u>	<u>Jan-24</u>	<u>Feb-24</u>	<u>Feb-24</u>
	<i>MoM % change (SA)</i>			<i>YoY % change (NSA)</i>
Headline	<b>0.2</b>	<b>0.3</b>	<b>0.4</b>	<b>3.2</b>
Food	0.2	0.4	0.0	2.2
Energy	-0.2	-0.9	2.3	-1.9
Core	<b>0.3</b>	<b>0.4</b>	<b>0.4</b>	<b>3.8</b>
Goods ex food and energy	-0.1	-0.3	0.1	-0.3
Used cars and trucks	0.6	-3.4	0.5	-1.8
Services ex energy	0.4	0.7	0.5	5.2
Rent of shelter	0.4	0.6	0.4	5.8