

INSTANT INSIGHTS

January 15, 2025

Core CPI Impresses

Headline consumer prices rose 0.4% in December, taking the Consumer Price Index (CPI) from 2.7% to 2.9% annually (the highest since July). However, core prices rose less than the market expected at 0.2% in December and 3.2% year-over-year (YoY) - a slight deceleration from 3.3% and the lowest since August.

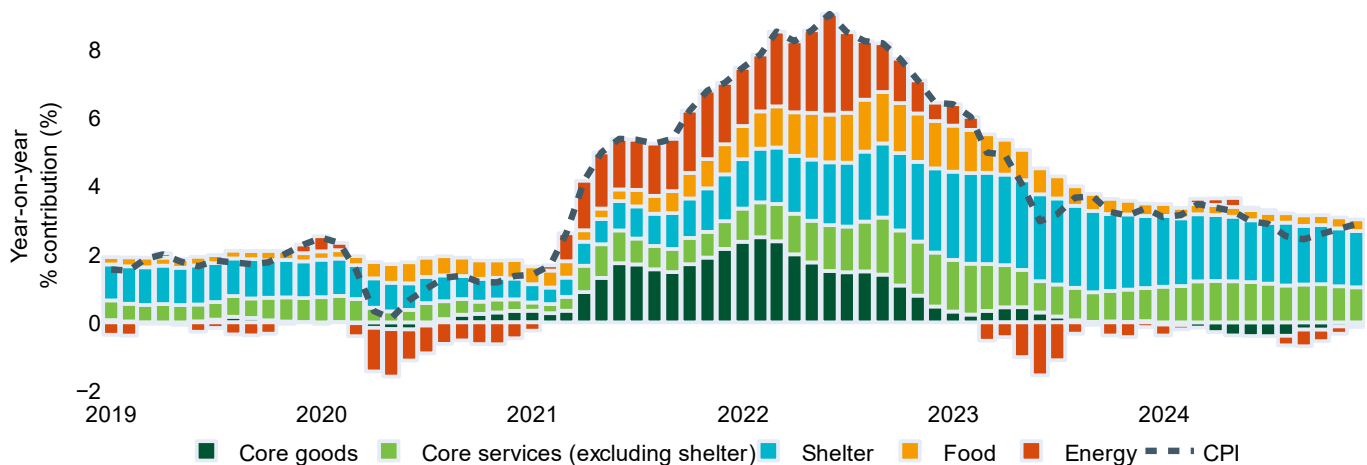
Core CPI continued to benefit from gradual improvements in the "stickier" core services components that the Federal Reserve (the "Fed") is watching closely. We believe this will keep the Fed's cutting cycle in play over 2025, albeit policy uncertainty and potential market volatility will likely create some headaches for the Fed.

ENERGY PRICES DRIVE HEADLINE CPI HIGHER

Energy prices rose 2.6% in December, driven largely by higher gasoline prices. Food inflation was also an upward pressure, partly due to ongoing avian flu-related supply issues affecting grocery staples like eggs.

Encouragingly, core goods prices eased to 0.1% in December (from 0.3% last month). Within the segment, used cars rose 1.2% in December (down from 2%), while most other categories were either largely disinflationary or posted moderate gains.

FIGURE 1: ENERGY PRICES CAUSE HEADLINE CPI TO ACCELERATE ¹



Charts are provided for illustrative purposes only.

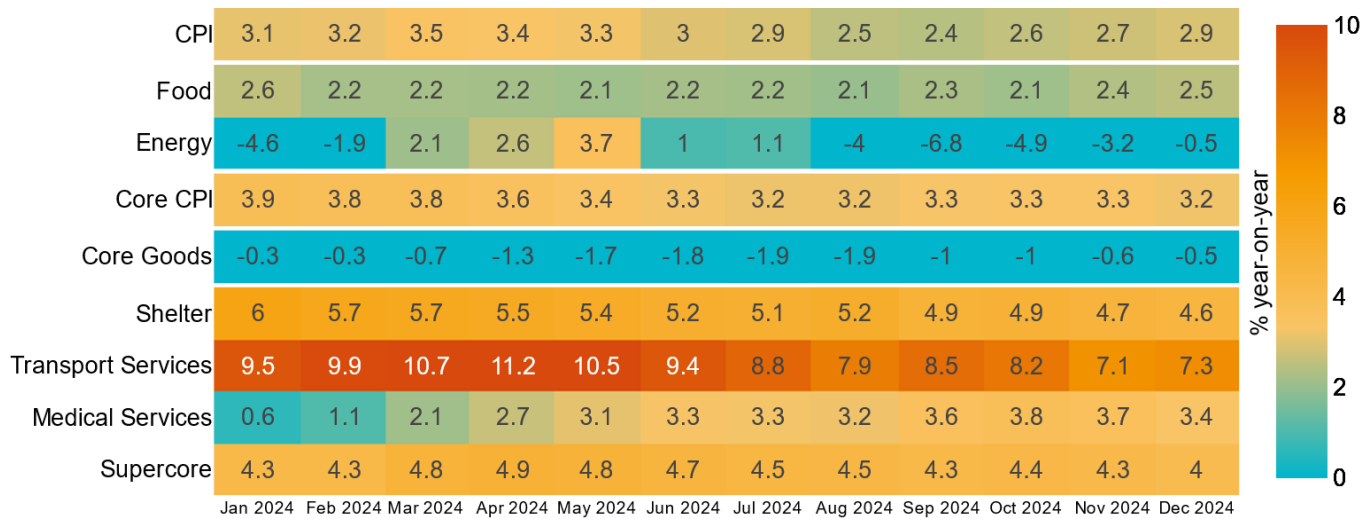
HOWEVER, STICKIER SERVICES CATEGORIES CONTINUE TO IMPROVE

Within the less volatile categories, we continued to see slow but steady progress.

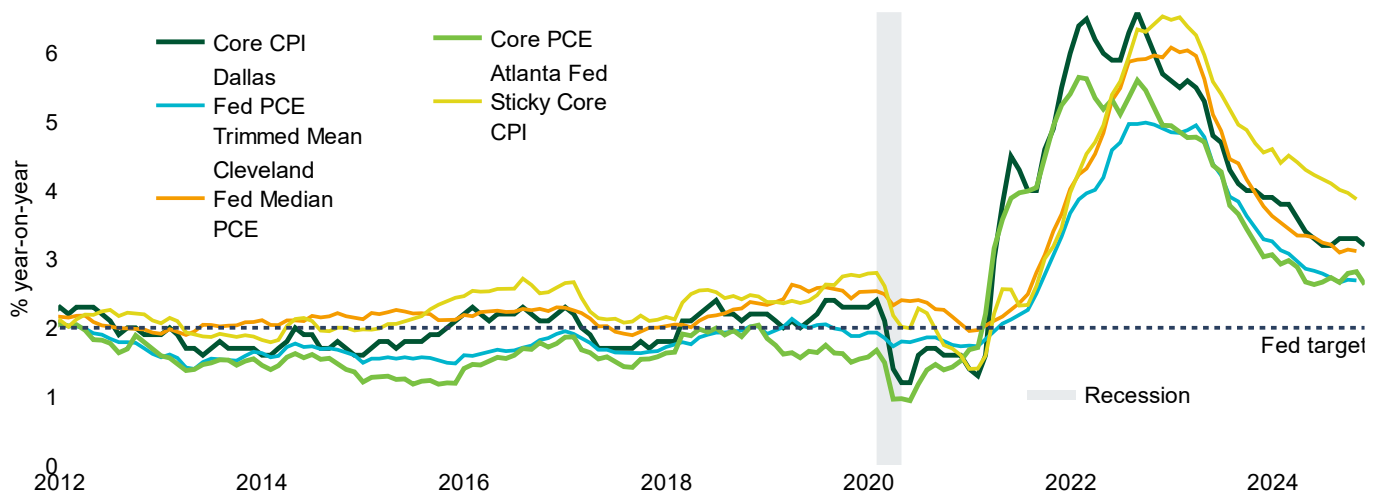
Shelter inflation fell from 4.7% to 4.6% annually, the lowest since January 2022. Excluding shelter, headline CPI was at 1.9%. Rental components showed gradual improvement while the "lodging away from home" component (which includes costs such as hotel and student accommodation) fell 1% in December.

"Supercore" CPI (a metric of underlying inflation popular with the Fed policymakers) eased from 4.3% to 4% annually. This reflected improvement in categories like medical services; however, transportation services remained hot, largely driven by a 3.9% spike in airline fares in December.

¹ Macrobond, Bureau of Labor Statistics, Insight, January 2025

FIGURE 2: “SUPERCORE” INFLATION IS STILL MOVING IN THE RIGHT DIRECTION ²

Stubborn inflation in these stickier sectors caused core inflation to move sideways for most of 2024 (Figure 3). However, we believe there may be meaningful progress over the coming months, given improving base effects and disinflationary trends.

FIGURE 3: STICKY SERVICES SECTORS HAVE HELD BACK PROGRESS IN CORE INFLATION, BUT THINGS MAY START IMPROVING³

POLICY UNCERTAINTY MAY CHALLENGE THE INFLATION PICTURE

Markets are still waiting for more clarity on the Trump administration’s trade and fiscal policy. Minutes from the last Federal Open Market Committee (FOMC) meeting saw policymakers highlighting upside inflation risks from the incoming administration’s potential trade policies.

Nonetheless, we expect the Fed will be encouraged by an improving Core CPI picture. Although it may not be enough to convince the central bank to cut rates in the near term, we believe it will help keep the cutting cycle in play for 2025, and we continue to find fixed income investments attractive following the recent retreat higher in yields.

² Macrobond, Bureau of Labor Statistics, Insight, January 2025

³ Bureau of Labor Statistics, Bureau of Economic Analysis, Federal Reserve Bank of Dallas, Federal Reserve Bank of Cleveland, Federal Reserve Bank of Atlanta, Macrobond, January 2025

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The **Consumer Price Index (CPI)** measures the monthly change in prices paid by U.S. consumers. The Bureau of Labor Statistics (BLS) calculates the CPI as a weighted average of prices for a basket of goods and services representative of aggregate U.S. consumer spending. **Headline CPI** is the raw inflation figure reported through the Consumer Price Index (CPI) monthly. **Core CPI** excludes the more volatile food and energy categories. **Sticky** inflation refers to a persistent economic scenario where prices for goods and services do not adjust quickly to changes in supply and demand dynamics. **Supercore** inflation equals the inflation of a basket of goods and services, minus the food and energy inflation, and minus the housing inflation.

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