

# INSTANT INSIGHTS

February 12, 2025

## Slight "Shell Shock" for CPI

Inflation was higher than the market expected in January. Headline consumer prices rose 0.5% in January, taking headline Consumer Price Index (CPI) from 2.9% to 3% year-on-year (YoY). Core prices (which exclude food and energy components) rose 0.4% in January, taking core CPI 3.2% to 3.3% YoY.

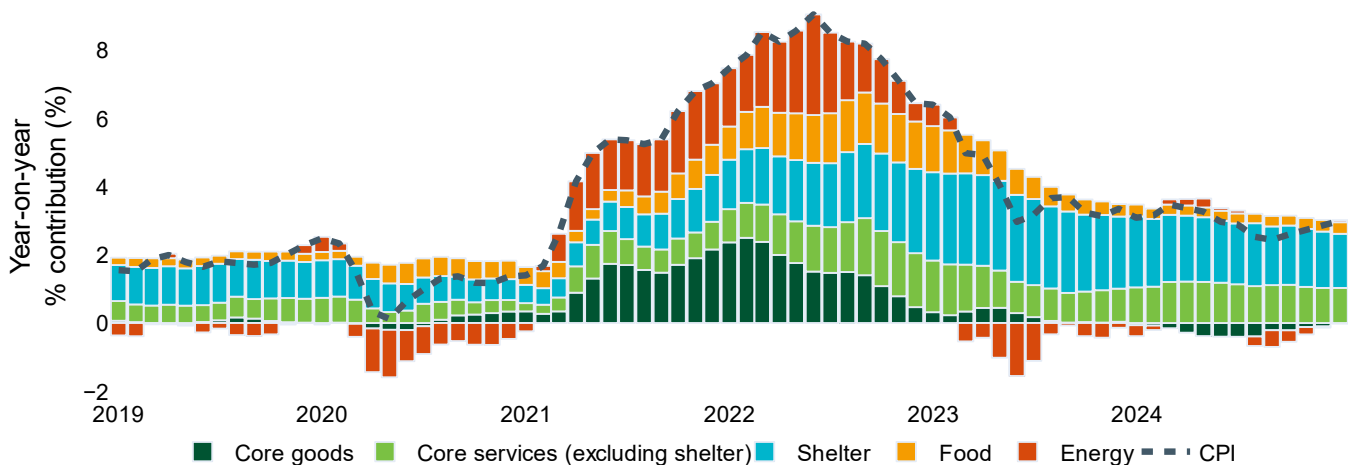
We believe that the print is not as concerning as it appears at first, as pricing in January tends to be subject to residual seasonality that is difficult to capture with seasonally adjusted data.

### EGG SHORTAGES HELP PUSH UP FOOD INFLATION

Volatile CPI categories generally accelerated in January.

Food inflation was 0.4%, the highest since February 2023. Half of this was driven by a 15.2% rise in egg prices, which remain subject to avian-flu related shortages. Energy inflation also remained elevated for the second month in a row, up 1.1% in January, driven by gasoline and natural gas. Core goods prices rose 0.3%, the highest since May 2023.

**FIGURE 1: PROGRESS IN HEADLINE INFLATION CONTINUES TO BE SLOW<sup>1</sup>**



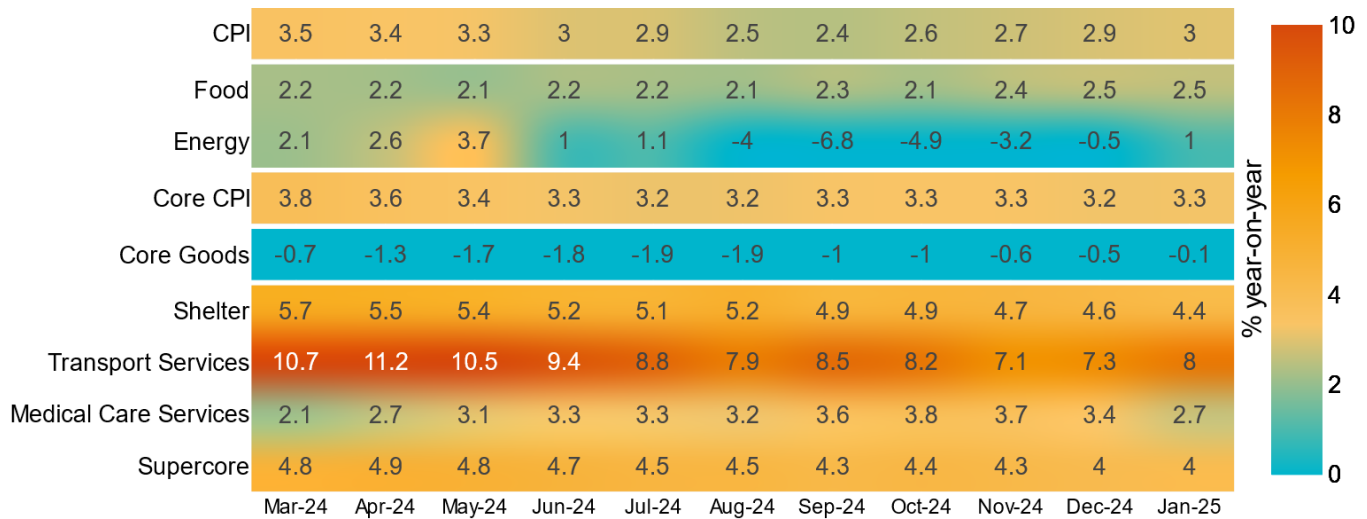
Charts are provided for illustrative purposes only.

Encouragingly for the Federal Reserve (the "Fed"), inflation in the stubborn core services sectors was less pronounced.

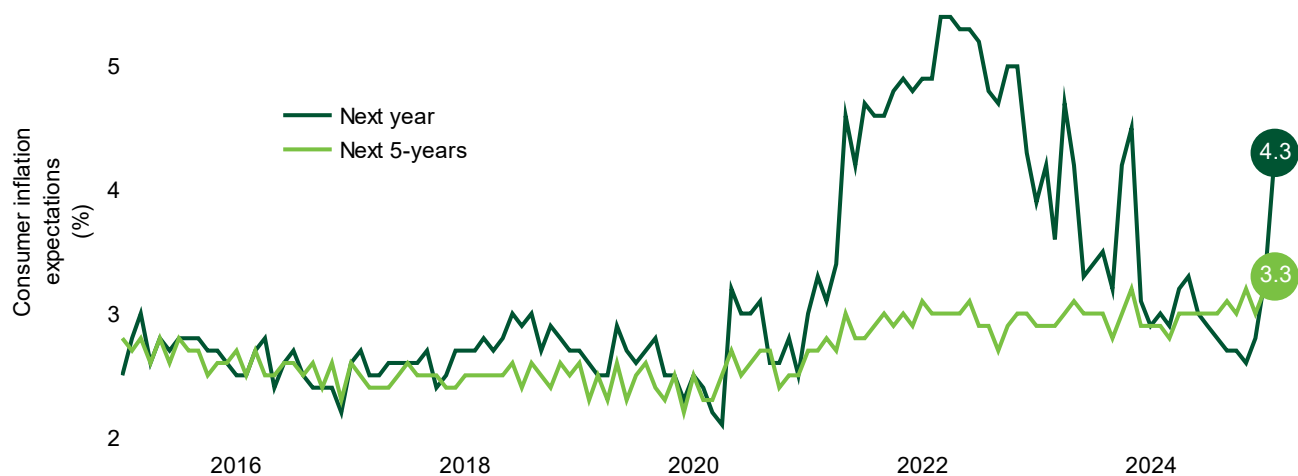
Shelter inflation continued its gradual disinflationary trend, reaching 4.4% relative to a year earlier, the lowest since January 2022.

The "supercore" services component (which excludes shelter) grew 4% YoY, remaining relatively muted outside transportation services, which accelerated largely due to a 2% increase in motor vehicle insurance prices.

<sup>1</sup> Macrobond, Bureau of Labor Statistics, Insight, February 2025

**FIGURE 2: THE "STICKIER" CORE SERVICES SEGMENTS APPEAR TO BE MOVING IN THE RIGHT DIRECTION<sup>2</sup>****TARIFFS CONTINUE TO POSE UNCERTAINTY**

Consumers are starting to react to uncertainty around the administration's tariff policies. The University of Michigan's latest survey showed shorter-term inflation expectations spiking by a percentage point to 4.3%, and longer-term expectations also higher (Figure 3).

**FIGURE 3: CONSUMER INFLATION EXPECTATIONS SPIKE ON TARIFF CONCERNS<sup>3</sup>**

Charts are provided for illustrative purposes only.

**WE EXPECT THE FED TO REMAIN BIASED TO CUT RATES**

We believe that disinflationary trends remain in place, driven by grading improvements in "stickier" sectors like shelter and "supercore" CPI.

We suspect the Fed may look through strength in food and energy categories (which are potentially transitory) and be mindful of seasonal adjustment-related distortions in shorter-term data.

Policy uncertainty remains, nonetheless. However, while tariffs have the potential to introduce transitory inflation, they also have the potential to impede growth, making for a challenging balancing act for the Federal Open Market Committee (FOMC).

Ultimately, we expect the Fed to keep rate cuts in play this year, but we will continue to watch political developments closely.

<sup>2</sup> Macrobond, Bureau of Labor Statistics, Insight, February 2025

<sup>3</sup> University of Michigan, Macrobond, February 2025

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**Federal Open Market Committee (FOMC)** is the branch of the Federal Reserve System (FRS) that determines the direction of monetary policy in the United States by directing open market operations (OMOs). 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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