Making Sense

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January's Consumer Price Index:

Inflation Rate Remains Above 3%, Surprising Consensus

In Brief:

Takeaways from January's consumer price index:

- Headline inflation (year-over-year): **3.1%**
- Core inflation (year-over-year): **3.9%**

What does it mean for you?

- Inflation remains stubbornly elevated.
- Today's report casts doubt on a near term rate cut.

What to watch:

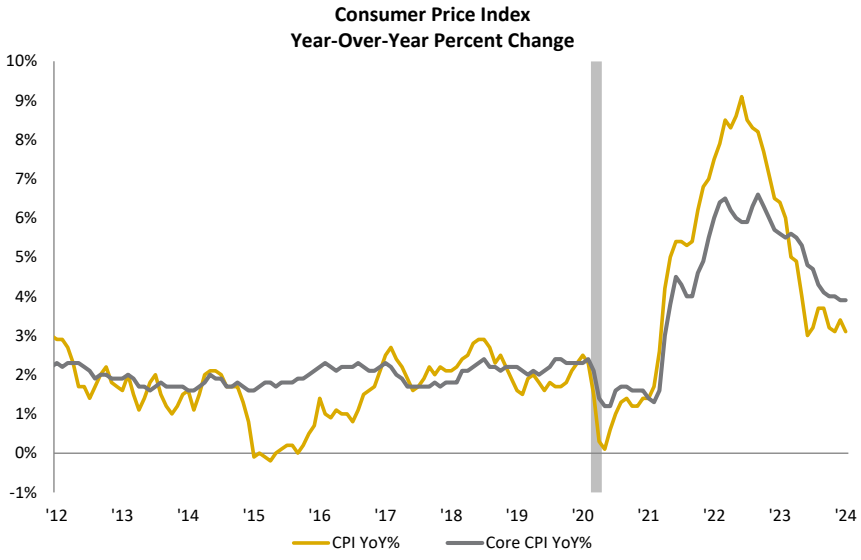
- The Fed's next rate decision on March 20th, along with their Summary of Economic Projections.
- The Fed will continue to monitor economic data as well as developing geopolitical events.
- Stay informed and submit your questions at FirstCitizens.com/Wealth/Market-Outlook.

Today's consumer price index release placed year-over-year inflation at 3.1%, above consensus expectations of 2.9%, albeit an improvement from 3.4% in the prior report. Worryingly, core CPI, which excludes the impact of food and energy, was unchanged at 3.9%. Month-over-month, headline CPI rose 0.3% (above 0.2% in December) while core rose 0.4%, above the 0.3% gain in the prior month.

So, what is driving higher-than-expected consumer inflation? In one word: housing. The total cost of shelter accelerated to a 0.6% month-over-month increase from a 0.4% gain in the prior two months. Owner's equivalent rent also accelerated, rising 0.6%. Shelter accounts for a massive 36% of CPI—thus a reacceleration pulls overall inflation higher. In better news, the cost of apparel fell 0.7% versus December, while the cost of used cars declined 3.4%. New car prices were flat, while airline fares rose 0.9%

The FOMC's press release following January's meeting stated "the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent."[i] In the press conference following the release, Fed Chair Powell reemphasized that the Committee remains data dependent and indicated that a March rate cut was very unlikely. **Today's data makes the Fed's job harder as inflation remains stubbornly elevated. We continue to expect the Fed to cut the federal funds rate later this year, but today's report casts doubt on the first cut being in the near term.**

Figure 1: Consumer Price Index



Source: BLS, Bloomberg

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[i] FOMC Press Release January 31, 2024