

## **Datanote: US CPI, January**

**In one line: Seasonals still failing to offset new year price rises; February data will reassure the FOMC.**

- The January CPI rose by 0.5%, above the consensus, 0.3%
- The core CPI increased by 0.4%, slightly above the consensus, 0.3%.

The sharp increase in the core CPI is less alarming than it first appears. We

expected the annual updating of the seasonal factors to result in a larger proportion of turn-of-the-year price rises being attributed to usual seasonal variation. But the revisions to the January seasonal factors for the components were very small. The estimate of January 2024's seasonally adjusted increase in prices was revised down merely to 0.37%, from 0.39%.

Incredibly, the seasonally adjusted 0.45% rise in the January core CPI was a hefty 0.08pp larger than the increase in January 2024, even though the unadjusted change

was just 0.02pp bigger. This highlights how disruptive the seasonal adjustment procedure can be at the turn of the year and how dangerous it is to extrapolate from one month's data. We recommend waiting for February's data, when the new seasonal factors look set to dampen the seasonally adjusted index more than in previous years, before judging how the underlying trend has evolved.

The big rise in the core CPI also was driven by two components which do not feed into the PCE deflator calculation.

CPI auto insurance prices leapt by 2.0%, boosting the change in the core index by 0.07pp, but PPI data are used instead for the PCE. In addition, hospital services prices increased by 0.9%—smaller than the 1.6% rise a year ago but still substantial—but PPI data are the underlying source for the PCE too. The CPI measures only the sticker prices of hospital treatment for people who pay for their own care, whereas the PPI is based on prices for people covered by third-party insurance, either via their employer, Obamacare, Medicare, or Medicaid. Bulk

buyers of healthcare get much better deals than those paying out of their own pocket, which is why the PPI/PCE measures of healthcare inflation are generally lower than the CPI measure.

Meanwhile, primary rent increased by 0.32%, broadly in line with the modest trend in the Zillow new rent data. OER rose by 0.35%, with the annual re-weighting of the OER sample seemingly having little impact, unlike in January 2024.

Our core-core services index, which

removes the airline fare, auto repair and insurance, health insurance, hospital services, and accommodation services components from core services ex-rents, rose by a still brisk 0.43% in January. But this is where residual seasonality is strongest in the data. Most business surveys point to a further fall in underlying services inflation ahead. For instance, the net percentage of businesses in the NFIB survey intending to increase prices was 7pp lower than a year ago in January.

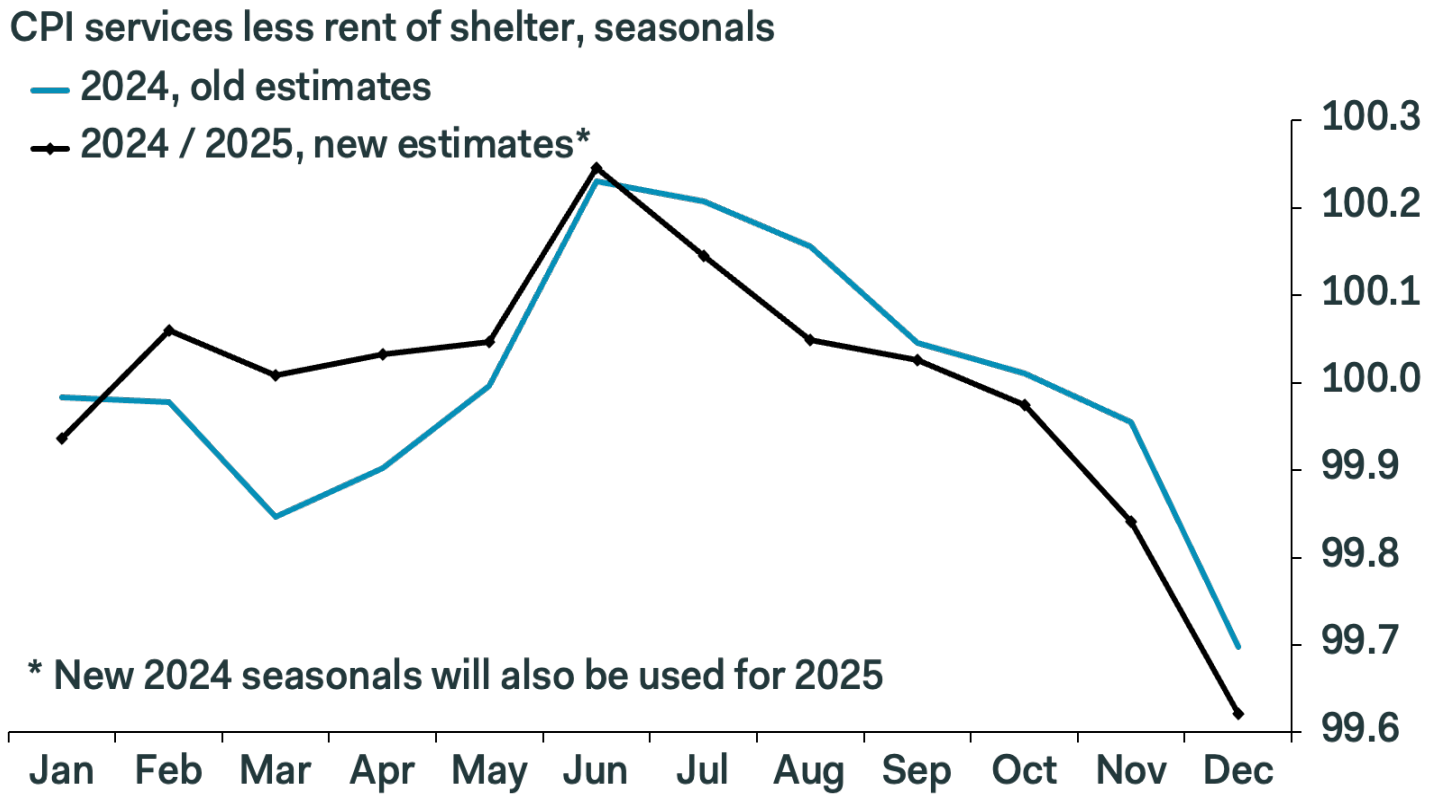
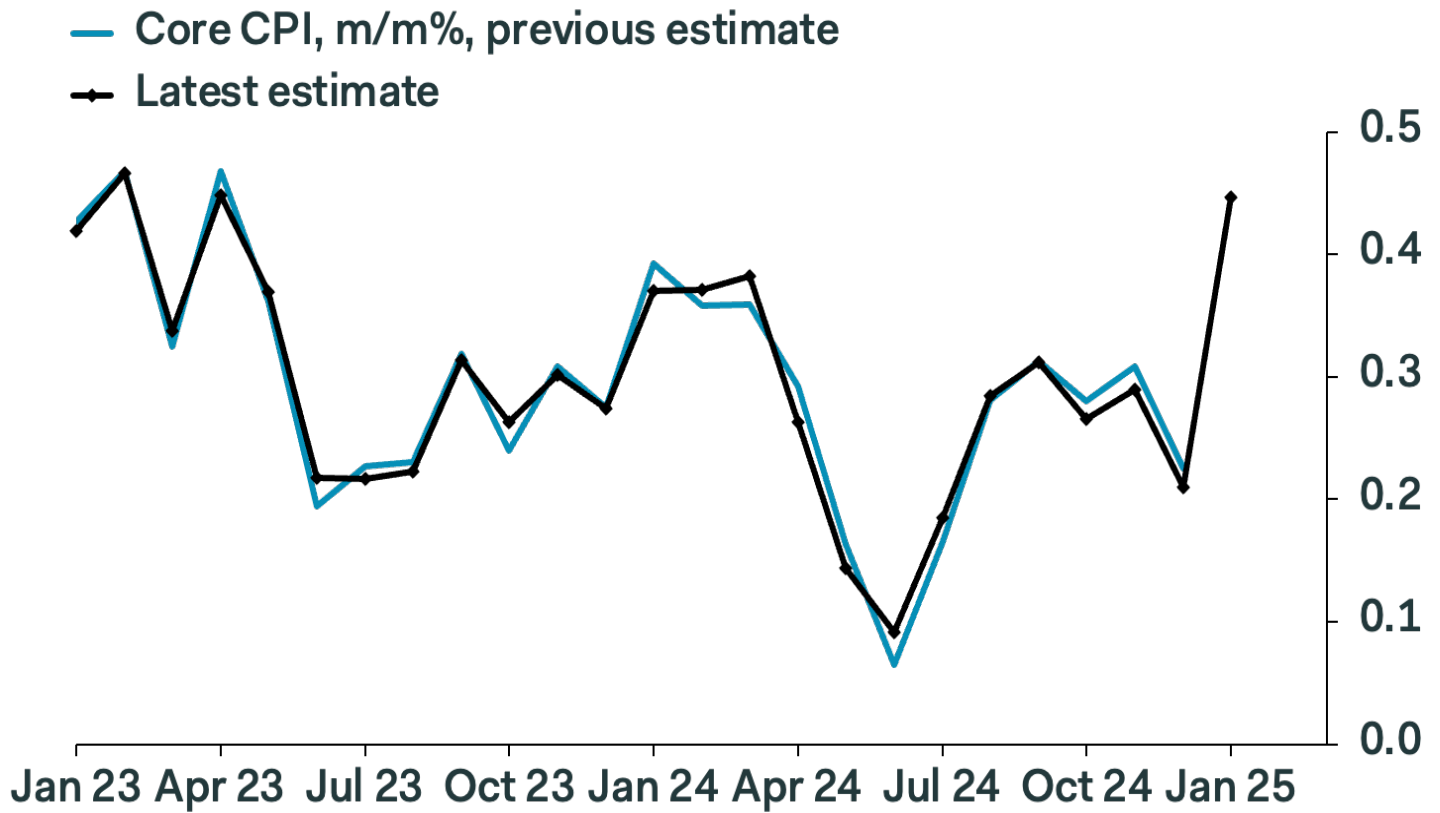
Meanwhile, core goods prices rose by

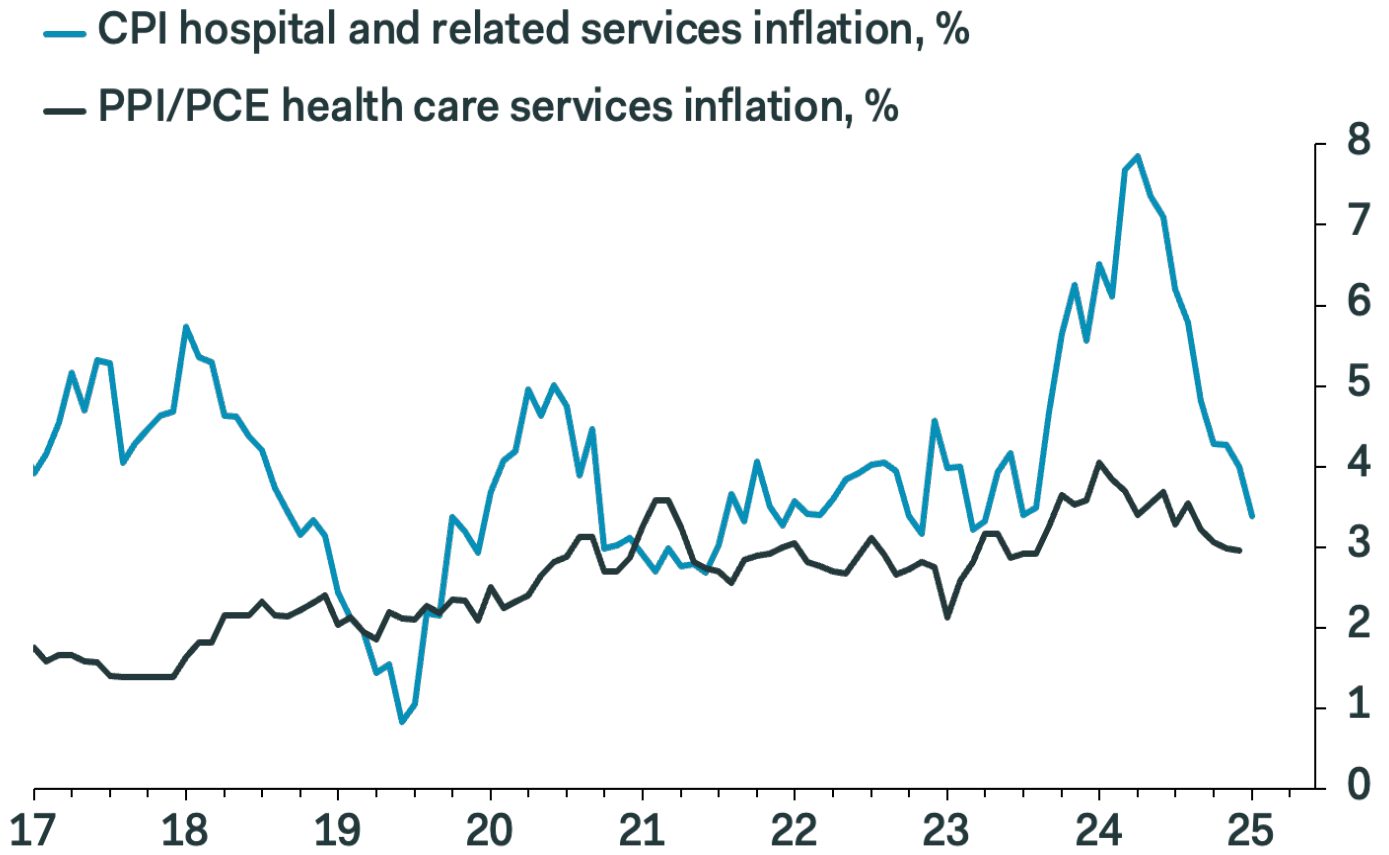
0.3%, mostly due to a surprise further 2.2% increase in used vehicle prices. JD Power auction price data suggests that the recent jump in autos prices will unwind very soon. Prices for core goods ex-autos rose by a mild 0.1%, supported by annual price rises for prescription drugs. The outlook for goods prices remains very uncertain due to tariffs, but stable energy prices, broadly flat shipping costs and the stronger dollar point to an otherwise benign outlook for core goods inflation.

We provisionally forecast that the core

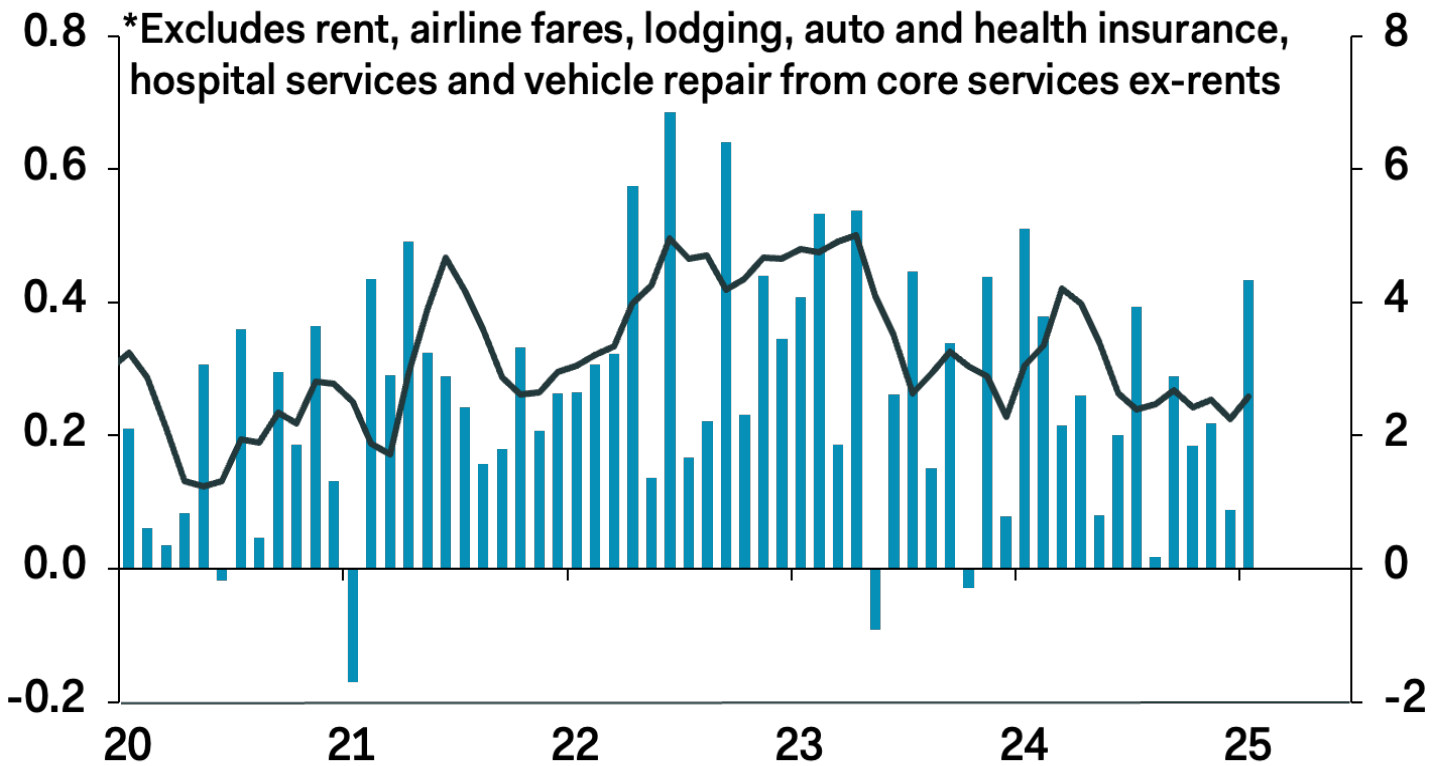
PCE deflator increased by 0.4% in January, but tomorrow's PPI data, which provide about one-third of the underlying source data, will enable us to refine this estimate. This forecast, as well as the likely revisions to January 2024's data, suggest that core PCE inflation probably edged down to 2.7% in January, from 2.8% in December. If as we expect, the trend continues to slow over the coming months, we still think the FOMC will ease policy again in June.



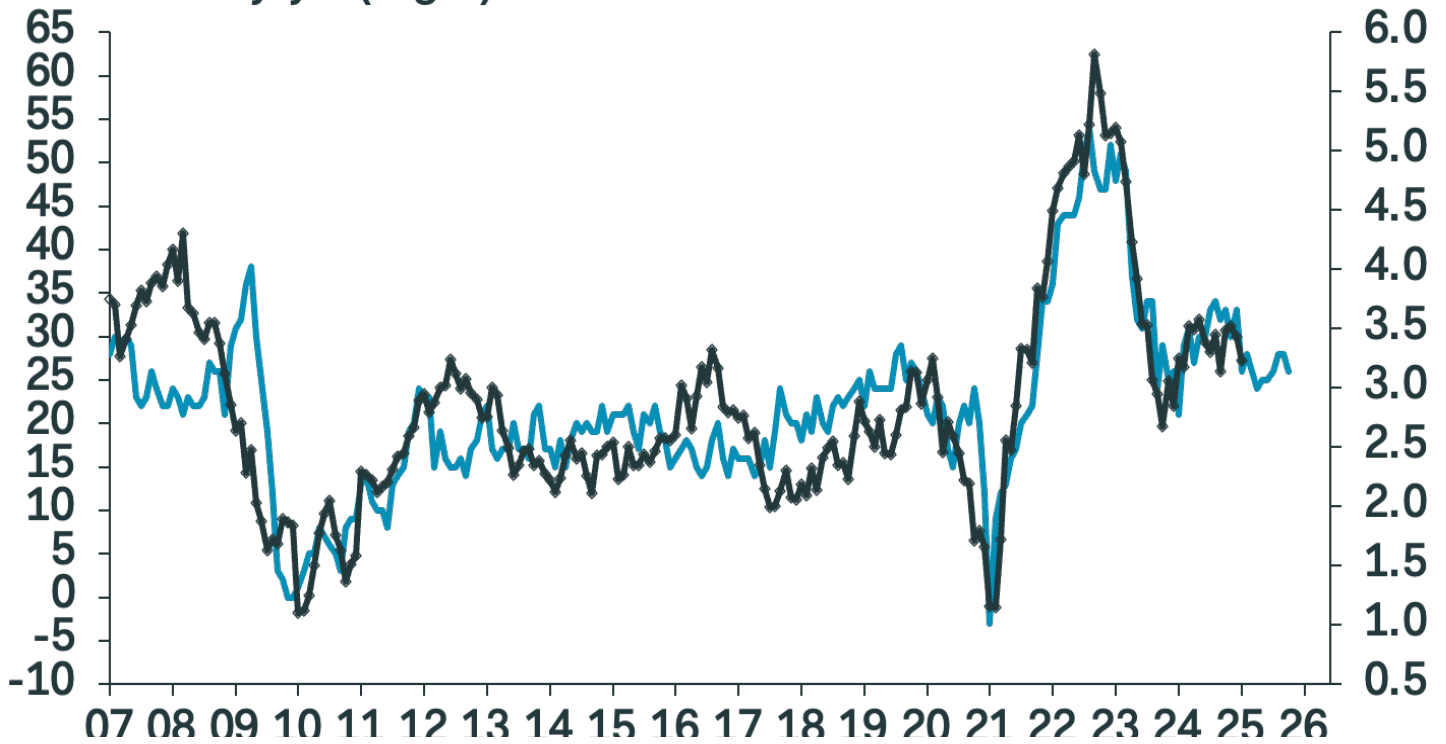




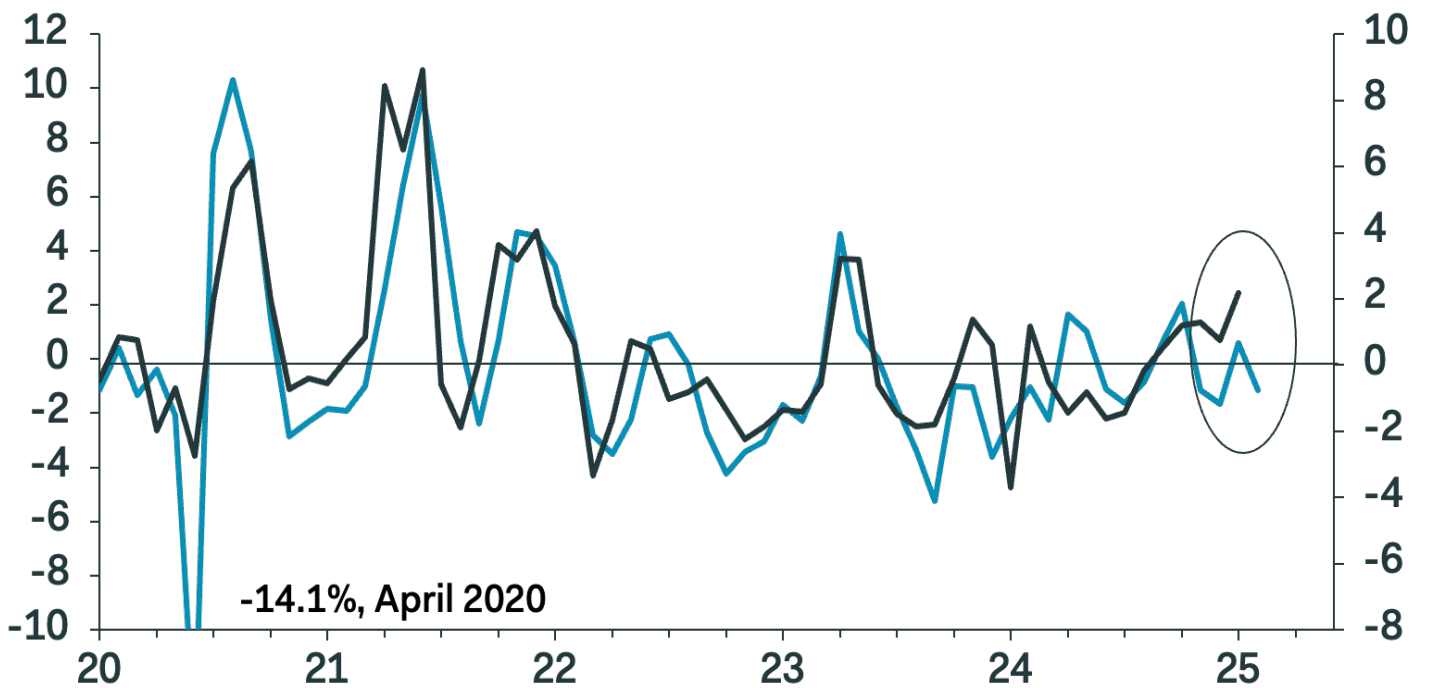
■ Pantheon CPI core-core services\*, m/m% (Left)  
 — 3m/3m annualized, % (Right)



- NFIB survey, net % expecting to raise prices, advanced 9m. (Left)
- CPI core services ex-housing, airline fares, auto insur. & telephone services y/y% (Right)

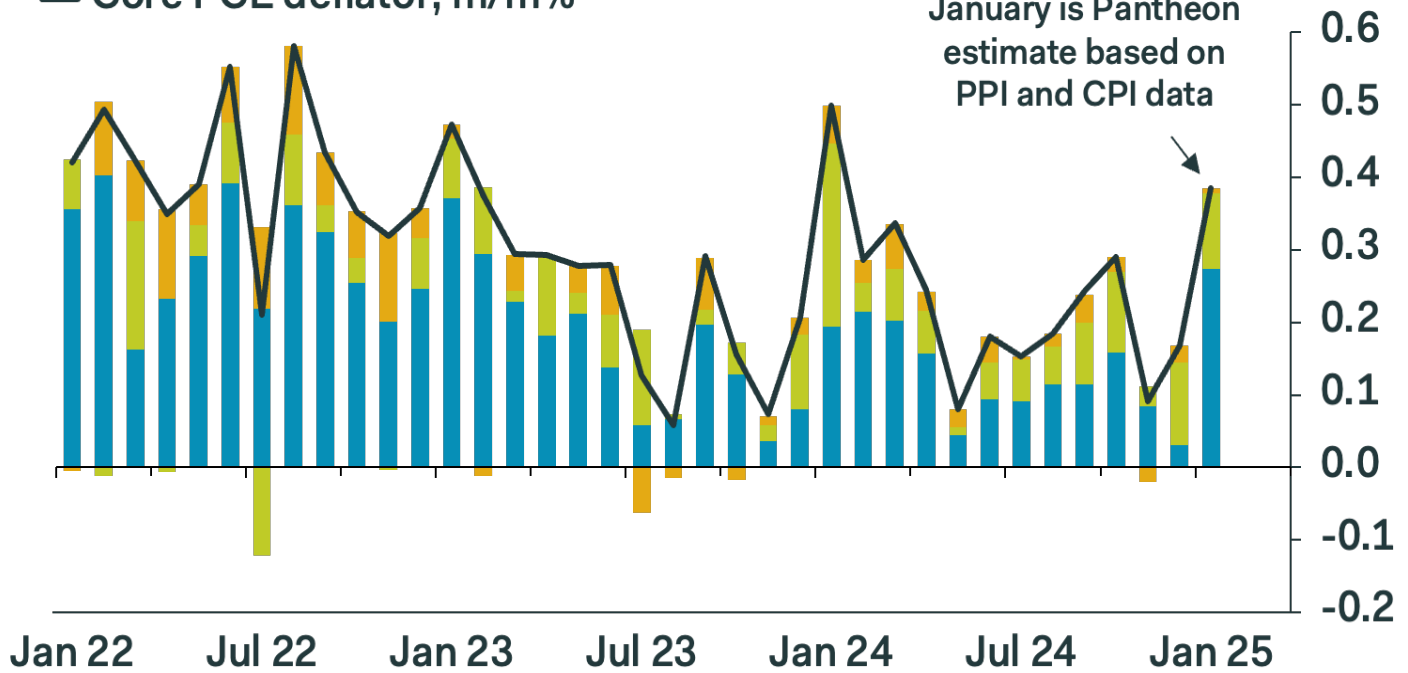


- JD Power used vehicle price index, adv. two months, m/m% (Left)
- CPI used cars and trucks, m/m% (Right)



- Contrib. from components largely derived from other sources
- Contrib. from components derived from PPI data
- Contrib. from components derived from CPI data
- Core PCE deflator, m/m%

January is Pantheon estimate based on PPI and CPI data



## Pantheon Macro forecasts for PCE deflators

		Oct 24	Nov 24	Dec 24	Jan 25 PM forecast
Core PCE deflator	m/m%	0.27	0.11	0.16	0.39
	3m/3m% ann.	2.48	2.58	2.50	2.45
	y/y%	2.80	2.82	2.79	2.68
Headline PCE deflator	m/m%	0.24	0.12	0.26	0.41
	3m/3m% ann.	1.89	2.06	2.27	2.61
	y/y%	2.32	2.45	2.55	2.54