Datanote: US CPI, February

In one line: More rent oddities but the bigger picture is fine

- The February CPI rose 0.4%, in line with the consensus.
- The core rose 0.4%, a bit above the consensus, 0.3%.

This is only a partial relief after the horrorshow in January, when a spike in owners' equivalent rent and a host of hefty increases in other services components combined to drive up the core by 0.39%. But February's core increase, 0.35%, represents a smaller correction than we had hoped, in part because of a hefty upside surprise in primary rent, which jumped 0.46%, the biggest increase in four months and far more than the 0.3% implied by the Zillow numbers. OER, by contrast, fully mean-reverted to its usual spread with primary rents, after a huge upside surprise in January. In February, OER rose by 0.44%; the -0.02pp spread is in line with the 2023 average but much less than the +0.20pp spread in January.

The annual reweighting of OER has pushed up the weight of single-family detached homes - SFD - which attract higher rents than multi-family units. This reweighting has to promulgate through the remaining four subsets of the overall rent sample - it is split into six “panels”, each sampled twice per year - but it’s not certain to lift OER relative to primary rents every month;

today's February numbers are a case in point. In some months, the BLS has too few SFDs in the sample to make the adjustment, and other elements of the translation from primary to OER can offset the upward pressure from the SFD adjustment.

The bigger picture, though, is primary rents have been closely tracking the Zillow numbers with a lag, and the February spike looks like an anomaly. Assuming normal service resumes, then rents will be present no sustained inflation threat until the fall of 2025 at the earliest. In the short term, though, the past two months' data make it clear that anything can happen.

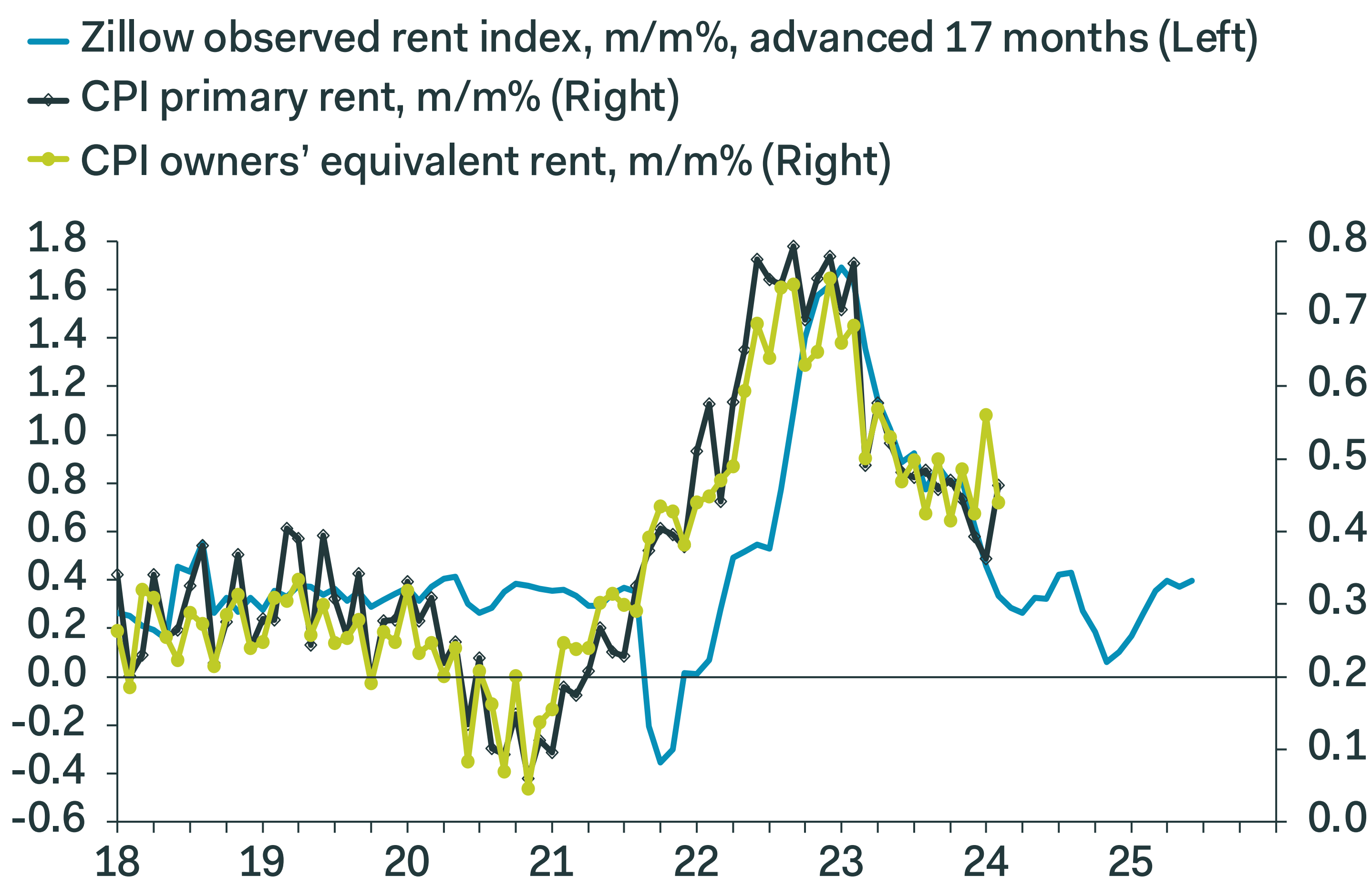
Elsewhere, core services prices ex-rent rose 0.47%, much less than the 0.85% leap in January, which was the biggest since April 2022. January's 1.6% spike in hospital prices was followed by a 0.6% drop in February, but airline fares jumped 3.6%, much more than we expected and accounting for more than a fifth of the entire increase in core services ex-rent. This is unlikely to continue; fares have adjusted to slightly higher oil prices. Lodging costs rose only 0.1%, after a 1.8% surge in January.

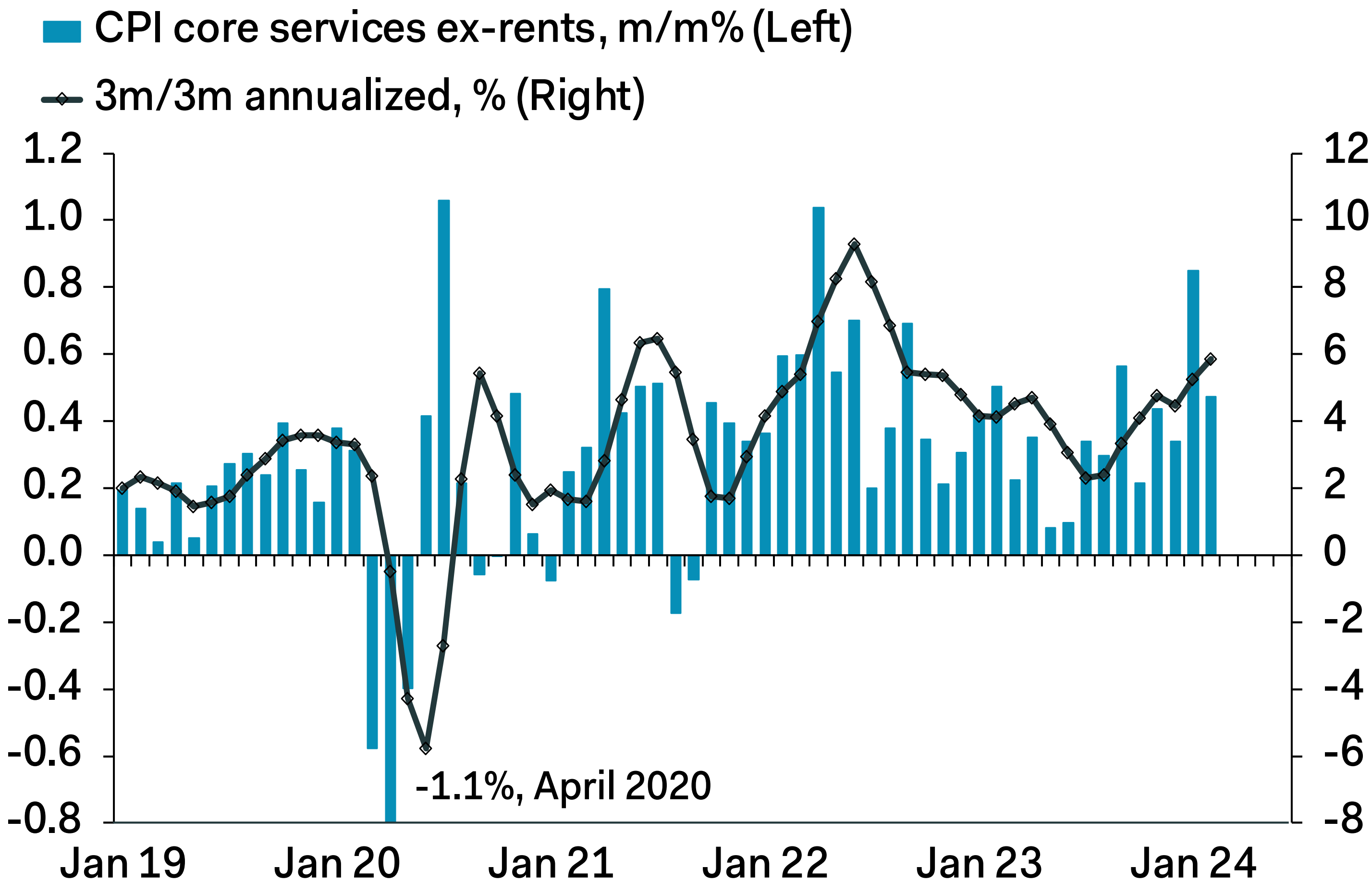
Smaller increases across an array of smaller components - including the vehicle insurance and repair components, which surged last year - also held down the aggregate non-rent services number, supporting the idea that the BLS's January seasonals don't fully offset the tendency for many businesses to raise prices at the start of the year. Looking ahead, the clear downward pressure on wage growth - the quits rate is now below its pre-Covid level, and still falling - points to sustained downward pressure on core services inflation over the course of this year.

Core goods prices rose 0.1%, thanks mostly to a 0.5% increase in used auto prices, but this followed a 3.4% plunge in January, and the trend is strongly downwards. New auto prices dipped 0.1%. Clothing prices rose 0.6%, reversing most of their Jan drop; the trend is flat-to-falling. We see no inflation threat from core goods prices for the foreseeable future, given the near-zero trend in core goods PPI inflation and very modest growth in unit labor costs.

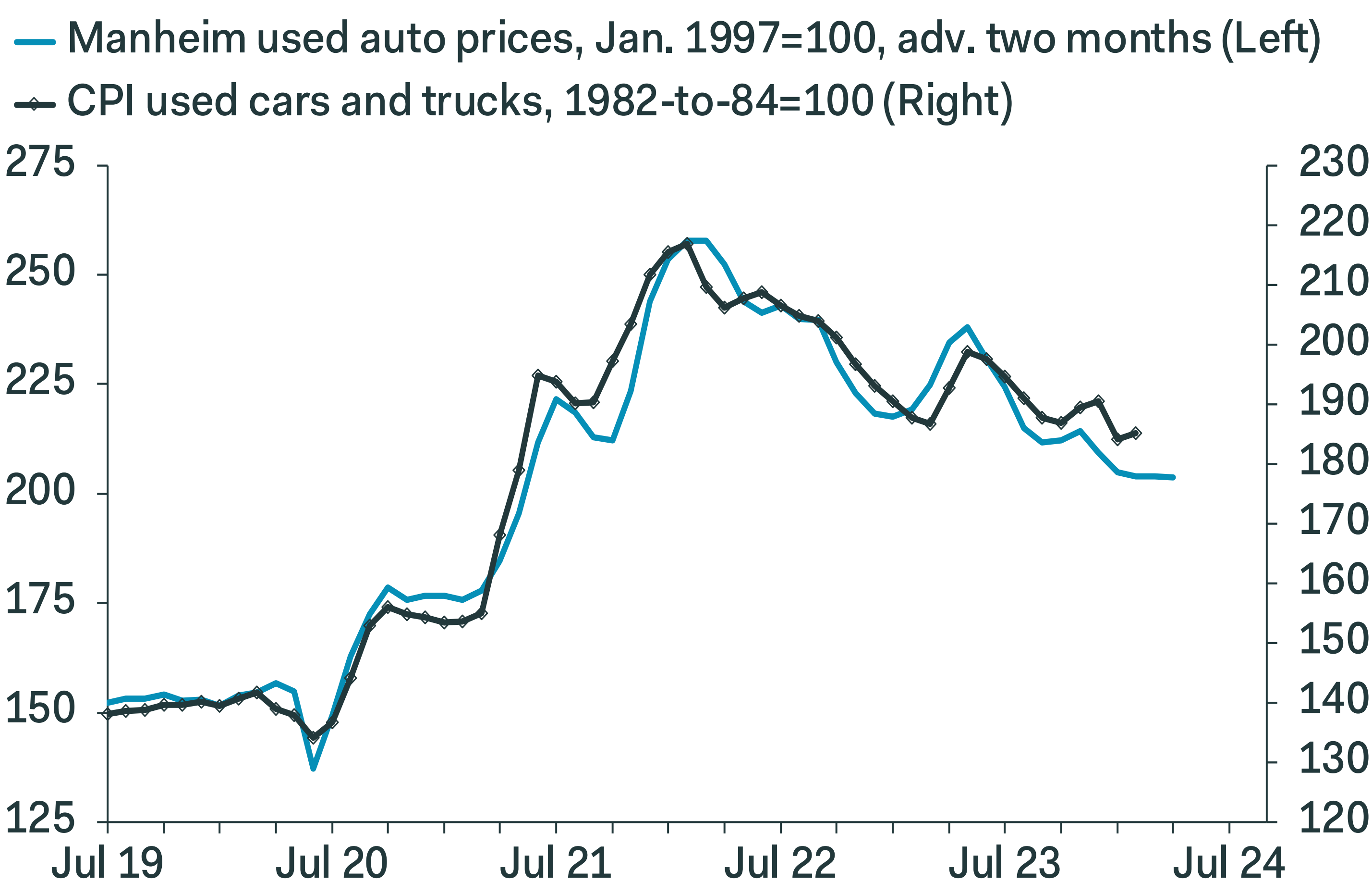
We can't finalize our February core PCE forecast until after the release of Thursday's PPI report, because many core PCE components are driven by the PPI rather than the CPI, including healthcare services and airline fares. The PPI and CPI measures can diverge substantially month-to-month. But we can be reasonably confident that a repeat of January's 0.42% jump in the core PCE is unlikely.

Another CPI report will be published before the May FOMC meeting, as well as two full rounds of PPI and PCE data, so Fed officials don't need to rush to a snap judgement on the back of these data. We remain of the view that the upcoming inflation data, alongside a soft March payroll report and further evidence of slowing wage growth in the Q1 ECI, will give the Fed room to ease in May. But it's a close call right now, and a delay until June would be no surprise.

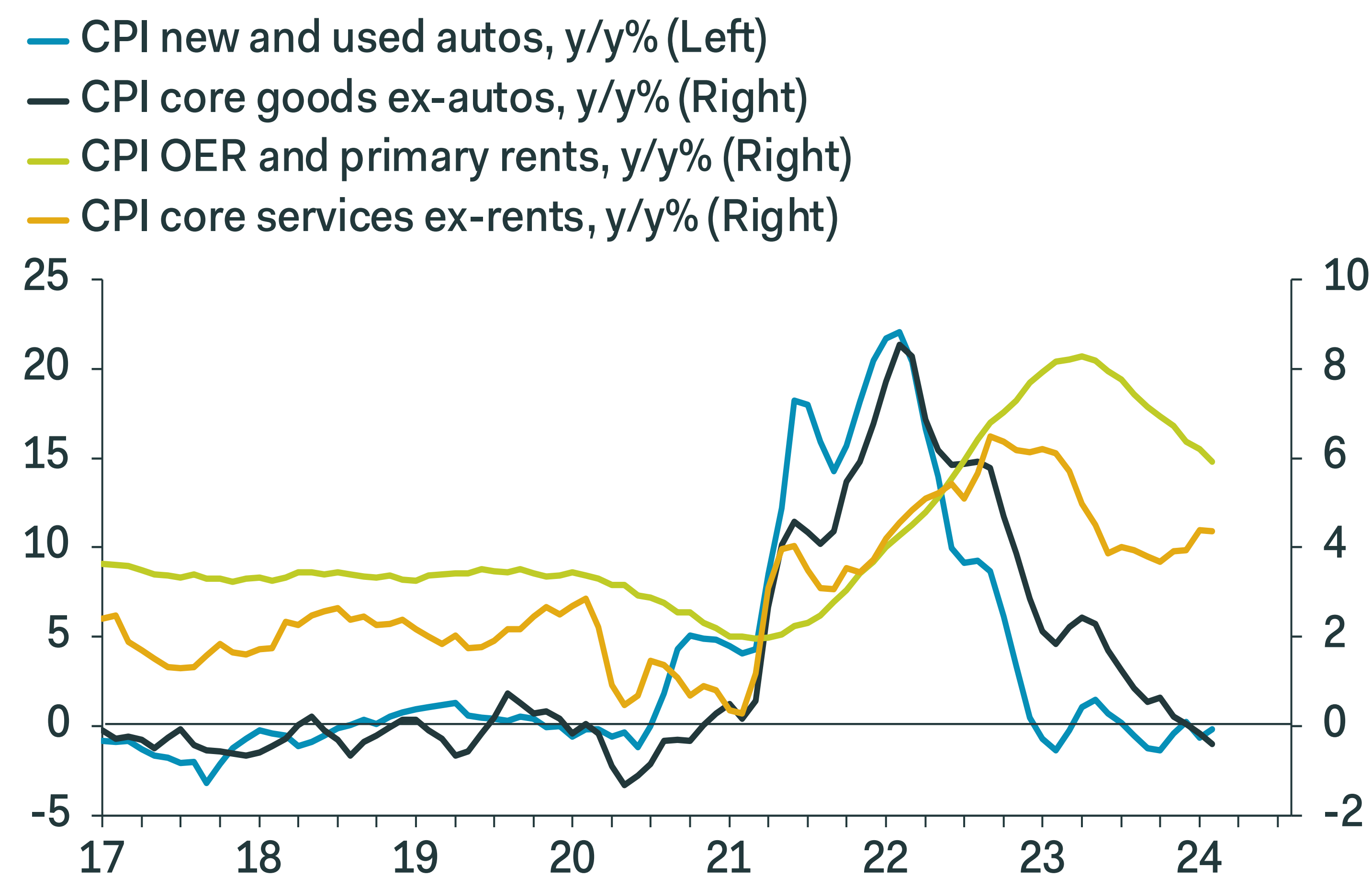


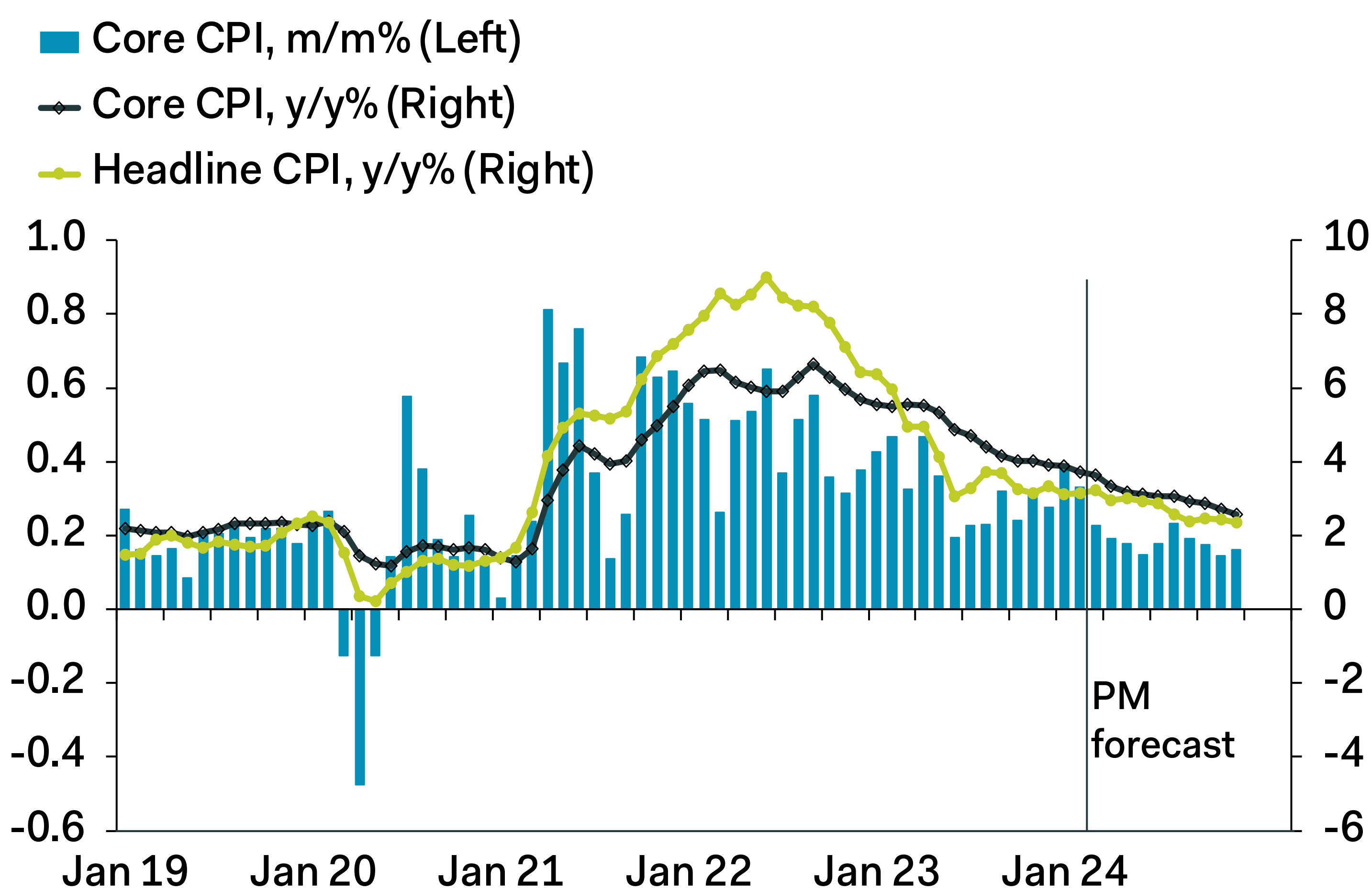


CPI core services ex-rents, m/m% (Left)
3m/3m annualized, % (Right)
-1.1%, April 2020
Jan 19
Jan 20
Jan 21
Jan 22
Jan 23
Jan 24



Manheim used auto prices, Jan. 1997=100, adv. two months (Left)
CPI used cars and trucks, 1982-to-84=100 (Right)
Jul 19
Jul 20
Jul 21
Jul 22
Jul 23
Jul 24


CPI new and used autos, y/y% (Left)
CPI core goods ex-autos, y/y% (Right)
CPI OER and primary rents, y/y% (Right)
CPI core services ex-rents, y/y% (Right)
25
20
15
10
5
0
-5
10
8
6
4
2
0
-2
17
18
19
20
21
22
23
24


Core CPI, m/m% (Left)
Core CPI, y/y% (Right)
Headline CPI, y/y% (Right)
1.0
0.8
0.6
0.4
0.2
0.0
-0.2
-0.4
-0.6
10
8
6
4
2
0
-2
-4
-6
PM
forecast
Jan 19
Jan 20
Jan 21
Jan 22
Jan 23
Jan 24