

13 March, 2024

US CPI Inches Higher

- Consumer prices rose 0.4% MoM and 3.2% YoY
- Core CPI rose 0.4% MoM and at 3.8% YoY
- A deceleration in core services inflation
- Core goods prices ticked higher
- The 'sticky' part of inflation remains the biggest challenge for the Fed

Inflation sped up slightly in February on an overall basis and a closely watched measure of underlying price increases was firmer than had expected. The fresh data underscore that fully returning inflation back to a normal pace is likely to be a bumpy process - and back up the Federal Reserve's decision to proceed carefully as officials consider when and how much to lower interest rates.

The headline CPI increased 0.4% MoM and over the 12-month period, headline CPI accelerated from 3.1% YoY to 3.2% YoY. The overall energy index, which accounts for a little under 7% of the CPI, increased 2.3% in February. As expected, the headline CPI was lifted by a jump in gasoline prices (+3.8%). Compared to one year ago, gasoline prices are still down 3.9%. Energy services rose a smaller 0.8%, led by utility gas service (+2.3%). Food inflation was more benign in February, and for the first time since April 2023, overall food prices did not rise. Grocery prices held flat, while "food away from home" (restaurants) ticked up by just 0.1%. On an annual basis, overall food price inflation slowed to 2.2%, the lowest rate since May 2021. It is now edging even closer to pre-pandemic norms.

Excluding food & energy, core prices rose 0.4% MoM, matching January's gain while the twelve-month change fell 0.1 percentage points to 3.8% YoY - reaching its lowest since May 2021. There was also a slightly encouraging improvement in housing-related costs, which have been a significant reason why inflation remains elevated.

Prices for core services rose 0.5% MoM – a deceleration from last month's gain of 0.7%. The pullback was related to some easing in both shelter costs (0.4% MoM from 0.6% MoM in January) and non-housing services (up 0.5% MoM from 0.8% MoM in January). However, the three-and-six-month annualized rates of change on non-housing services remain hot at 6.4% and 5.8%, respectively. Annually, shelter prices are up 5.7%, the lowest that rate has been since July 2022. The shelter numbers continue to very gradually, but very steadily, come down on a year-over-year basis.

Excluding primary shelter, core services also advanced at a less concerning rate in February. The CPI version of the "super core", watched by Fed officials to better gauge services inflation given the long lag in shelter inflation, advanced 0.4% after a 0.9% gain in January. The more moderate reading was helped along by a partial reversal of last month's jump in medical and personal care services. The broad cooling in the CPI "super core" in February suggests services inflation is not as sticky as initially feared following January's sharp upside surprise.

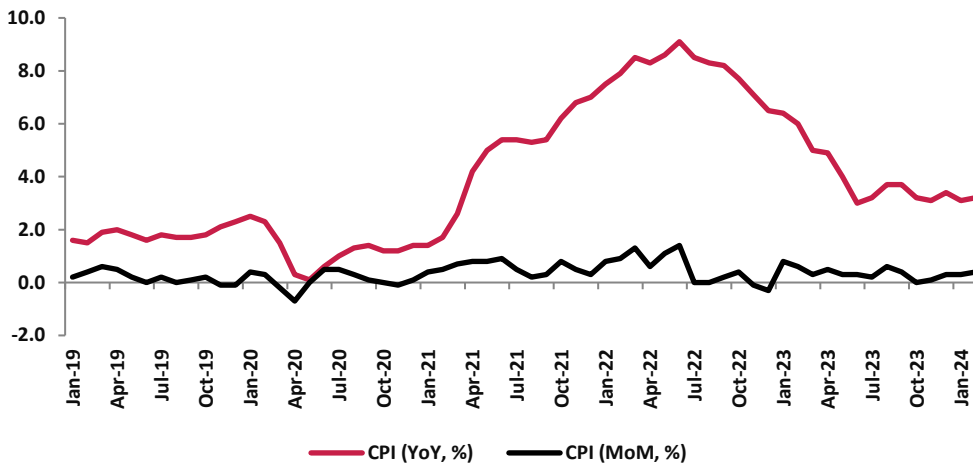
Core goods prices unexpectedly ticked higher last month, rising 0.1% MoM. Used vehicle prices (+0.5% MoM) and apparel (+0.6% MoM) both rebounded after having recorded declines in months' prior.

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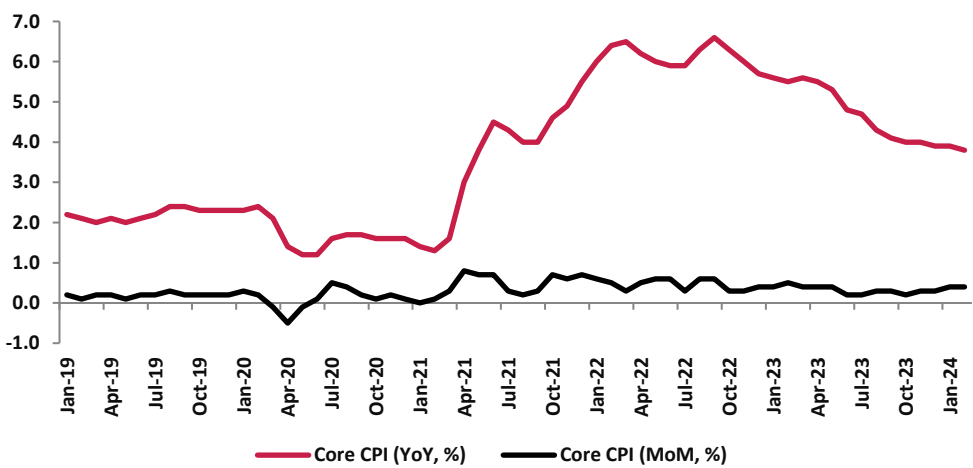
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Chart 1: US Headline Inflation (%)



Source: Bloomberg, BIMB Securities

Chart 2: US Core Inflation (%)



Source: Bloomberg, BIMB Securities

The ‘sticky’ part of inflation remains the biggest challenge for the Fed

Sticky. There’s no better way to describe February’s US CPI print. Headline and core inflation rose by 0.4% MoM in February. The consumer price index increased 3.2% YoY and the core CPI was up 3.8% YoY. That makes two consecutive months of stronger than expected readings on core inflation. The upward surprise was the result of a modest gain in goods prices – snapping eight prior months of declines – and a still hot reading on non-housing service inflation.

We doubt the latest CPI report fills the FOMC with the confidence it needs to begin cutting rates. The core CPI has risen at 4.2% annualized rate over the past three months, which is a bit higher than the 3.8% increase in core prices over the past 12 months. Although we expect disinflation progress to resume in the coming months, but we think the FOMC will need to see it to believe it. For a Fed that has become increasingly data dependent, February’s numbers are unlikely to give policymakers much further conviction that inflation remains on a sustained downward path to 2%. With the economy still strong, Fed officials can afford to keep rates elevated into the summer and continue to wait for further signs of cooling on the inflation front before dialling back the policy rate.

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