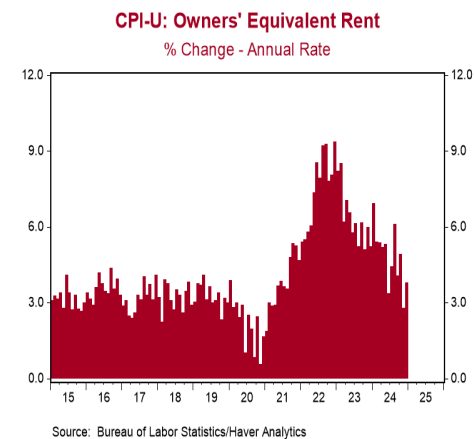
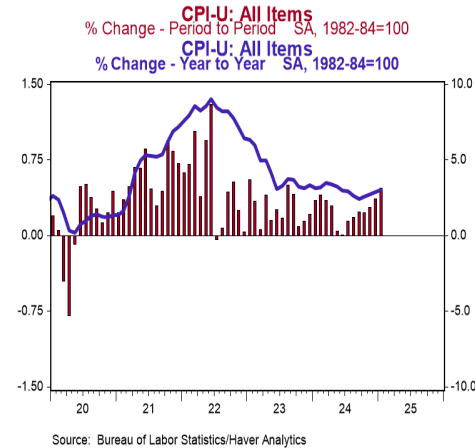


# January CPI

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- The Consumer Price Index (CPI) rose 0.5% in January, well above the consensus +0.3%. The CPI is up 3.0% from a year ago.
- Energy prices increased 1.1% in January, while food prices rose 0.4%. The “core” CPI, which excludes food and energy, increased 0.4% in January, above the consensus expected +0.3%. Core prices are up 3.3% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – were unchanged in January but are up 1.0% in the past year. Real average weekly earnings are up 0.7% in the past year.

**Implications:** The embers of inflation continue to glow, and in January they burned hotter. Don’t expect another rate cut from the Federal Reserve anytime soon. Consumer prices jumped 0.5% for the month (+5.7% annualized) and came in well above consensus expectations, with the twelve-month reading at 3.0%, barely below the 3.1% inflation in the year ending January 2024. Looking at the details, the pick-up in inflation was broad-based, with energy rising 1.1% and food up 0.4%. But it’s important to note that these two often-volatile categories have not been what’s kept inflation from returning back to the Fed’s 2.0% target. “Core” prices, which strip out food and energy, rose 0.4% in January (also above consensus expectations) with the twelve-month reading increasing to 3.3%, which is *above* headline inflation. Yes, the main driver of core inflation has been housing rents, which continue to run hot (+0.3% in January), though not as rapidly as in the years prior. Some analysts – including those at the Fed – have argued that housing rents have artificially boosted inflation due to the way it’s measured. But a subset category of prices that Fed Chair Jerome Powell said back in November 2022, “may be the most important category for understanding the future evolution of core inflation” – known as the “Supercore” (which excludes food, energy, other goods, *and* housing rents) – surged 0.8% in January, the fastest monthly increase in a year. The increase was led by higher prices for used vehicles (2.2%), motor vehicle insurance (+2.0%), and hotels (+1.7%). If the Fed still looks at this measure (they never seem to mention it anymore) then they would not be happy to see these prices up 4.1% in the last year. No matter which way you cut it, inflation is still running above the Fed’s 2.0% target, and it is no longer improving. And yet, the Fed has cut rates a total of 100bps since September. Moving forward, we expect the Fed to remain on hold until inflation renews its long and winding march toward 2.0%, or the economy slows substantially.



<b>CPI - U</b> <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	<b>Jan-25</b>	<b>Dec-24</b>	<b>Nov-24</b>	<b>3-mo % Ch. annualized</b>	<b>6-mo % Ch. annualized</b>	<b>Yr to Yr % Change</b>
<b>Consumer Price Index</b>	<b>0.5%</b>	0.4%	0.3%	4.5%	3.6%	3.0%
<b>Ex Food &amp; Energy</b>	<b>0.4%</b>	0.2%	0.3%	3.8%	3.7%	3.3%
<b>Ex Energy</b>	<b>0.4%</b>	0.2%	0.3%	3.9%	3.6%	3.1%
<b>Energy</b>	<b>1.1%</b>	2.4%	0.1%	15.3%	2.8%	1.0%
<b>Food</b>	<b>0.4%</b>	0.3%	0.3%	4.0%	3.4%	2.5%
<b>Housing</b>	<b>0.3%</b>	0.3%	0.3%	3.9%	3.9%	3.9%
<b>Owners Equivalent Rent</b>	<b>0.3%</b>	0.3%	0.3%	3.6%	4.3%	4.6%
<b>New Vehicles</b>	<b>0.0%</b>	0.4%	0.5%	3.5%	2.0%	-0.3%
<b>Medical Care</b>	<b>0.2%</b>	0.1%	0.2%	2.4%	2.2%	2.6%
<b>Services (Excluding Energy Services)</b>	<b>0.5%</b>	0.3%	0.3%	4.3%	4.4%	4.3%
<b>Real Average Hourly Earnings</b>	<b>0.0%</b>	-0.1%	0.1%	0.0%	1.1%	1.0%

Source: U.S. Department of Labor