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# January CPI

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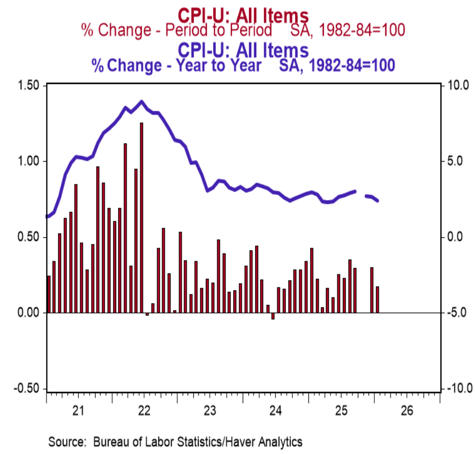


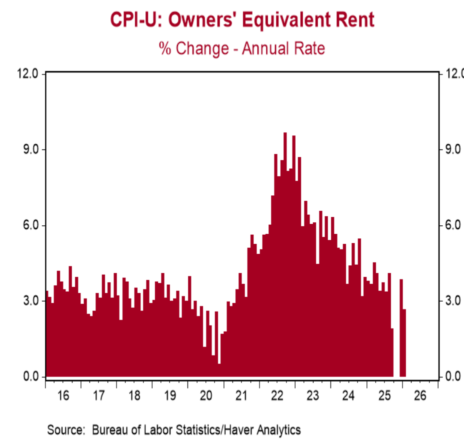


- The Consumer Price Index (CPI) rose 0.2% in January, below the consensus expected +0.3%. The CPI is up 2.4% from a year ago.
- Energy prices declined 1.5% in January, while food prices rose 0.2%. The "core" CPI, which excludes food and energy, increased 0.3% in January, matching consensus expectations. Core prices are up 2.5% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.3% in January and are up 1.2% in the past year. Real average weekly earnings are also up 1.9% in the past year.

**Implications:** Inflation came in below expectations in January, with the Consumer Price index rising 0.2% and the year-ago comparison cooling to 2.4%. "Core" inflation, which strips out food and energy, rose a consensus-expected 0.3%, while the year-ago comparison moved lower to 2.5%. Many analysts – including those at the Federal Reserve – warned of a renewed inflation surge from tariffs in 2025. But if you've been reading our content over the past year, then you would have known to look past the tariffs and instead focus on the M2 measure of the money supply for understanding where inflation would go. Tariffs shuffle the deckchairs on the inflation ship, not how high or low the ship sits in the water. That's up to the money supply – and given the slow growth over the last 3+ years – we were not surprised to see inflation continue its bumpy path downward in 2025. Now, both headline and core inflation sit at or near their lowest twelve-month pace since the great inflation scare began nearly five years ago. While progress has been made, inflation still remains above the Federal Reserve's 2.0% target. Looking at the details, headline inflation was held down by the volatile energy category in January, with prices dropping 1.5%, while its often-volatile counterpart, food prices, rose 0.2%. Housing rents (those for actual tenants as well as the imputed rental value of owner-occupied homes) was the main driver of core inflation for the month and has been over the last few years. The good news is that the category finally appears to be turning over, with rents rising only 0.2% and up at a 2.4% annualized rate over the last five months, lagging core inflation. Meanwhile, airline prices continue to move in large swings, rising 6.5% in January after a 3.8% increase in December. Putting it altogether, this report should provide further evidence to the Fed that inflation is trending down to its 2.0% target. There is a high chance that nothing happens on the rate front between now and the end of Powell's term, but investors should watch for a substantive shift in tone come May when Kevin Warsh likely replaces him as Chairman.

| CPI - U<br>*All Data Seasonally Adjusted Except for Yr to Yr* | Jan-26 | Dec-25 | Nov-25 | 3-mo % Ch. annualized | 6-mo % Ch. annualized | Yr to Yr % Change |
|---|---|---|---|---|---|---|
| ***Consumer Price Index*** | **0.2%** | 0.3% | 0.2% | 2.8% | 2.8% | 2.4% |
| ***Ex Food & Energy*** | **0.3%** | 0.2% | 0.1% | 2.6% | 2.5% | 2.5% |
| ***Ex Energy*** | **0.3%** | 0.3% | 0.1% | 2.8% | 2.6% | 2.6% |
| ***Energy*** | **-1.5%** | 0.3% | 1.6% | 2.5% | 4.8% | -0.1% |
| ***Food*** | **0.2%** | 0.7% | 0.1% | 4.1% | 3.2% | 2.9% |
| ***Housing*** | **0.2%** | 0.4% | 0.2% | 3.0% | 3.0% | 3.4% |
| ***Owners Equivalent Rent*** | **0.2%** | 0.3% | 0.1% | 2.8% | 2.7% | 3.3% |
| ***New Vehicles*** | **0.1%** | 0.0% | 0.2% | 1.3% | 1.5% | 0.4% |
| ***Medical Care*** | **0.3%** | 0.4% | 0.1% | 3.2% | 1.8% | 3.2% |
| ***Services (Excluding Energy Services)*** | **0.4%** | 0.3% | 0.1% | 3.1% | 2.9% | 2.9% |
| ***Real Average Hourly Earnings*** | **0.3%** | -0.3% | NA | NA | 1.1% | 1.2% |

*Source: Bureau of Labor Statistics*