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December Consumer Price Index: Some Genuine Moderation, Some Data Issues

- › The total CPI rose by 0.3 percent in September (up .307 percent unrounded); the core CPI rose by 0.2 percent (up 0.227 percent unrounded)
- › On a year-over-year basis, the total CPI is up 2.7 percent and the core CPI is up 2.6 percent as of December

The total CPI rose by 0.3 percent in December, matching the consensus forecast but one-tenth lighter than we anticipated, while the core CPI rose by 0.2 percent, below both the consensus forecast (0.3 percent) and our forecast (0.4 percent). On a year-on-year basis, the total CPI is up 2.7 percent as of December and the core CPI is up 2.6 percent. Those year-on-year changes, however, are biased lower as the October data were not collected due to the government shutdown. With BLS assuming, per their standard methodology, that prices for most CPI components were unchanged in October, the year-on-year comparisons are in reality more of an eleven-month change. As such, it is difficult to discern how much of the deceleration in inflation is due to the gap in the data and how much is genuine. We can isolate our forecast misses to large declines in a few components – cell phones, gasoline, used motor vehicles – but the data also show sizable increases in prices for food and apparel, air fares, lodging rates, and cable/streaming services that suggest lingering inflation pressures across much of the economy. Additionally, core goods price inflation is now at its highest since October 2023 and we do not think the full extent of tariff pass-through is yet reflected in the CPI data. To our earlier point, while we do think that some of the slowdown in headline and core inflation seen in the CPI data is genuine, there is nothing in the details of the data to suggest continued, steady deceleration in inflation.

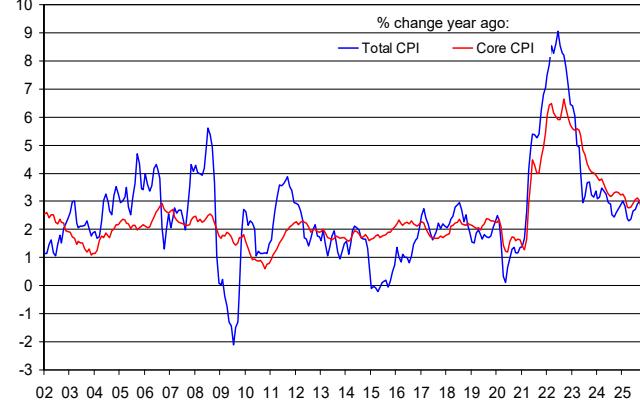
The overall index of energy prices was up by 0.3 percent in December, an increase held down by a surprising 0.5 percent decline in gasoline prices, whereas our forecast had anticipated an increase on a seasonally adjusted basis. Based on data from the Energy Information Administration (EIA), not seasonally adjusted gasoline prices declined by 3.4 percent in December which, applying the seasonal factor published by BLS, would have yielded a 1.4 percent increase on a seasonally adjusted basis. The BLS's measure, however, shows unadjusted gasoline prices down by 5.3 percent in December, not only a much steeper decline than reported by EIA but yielding the largest disparity between the two measures, in either direction, since May 2018. While electricity rates fell slightly, prices for residential gas service jumped 4.4 percent. Prices for food consumed at home (think grocery store prices) were up 0.7 percent, the largest increase since August 2022, and prices for food consumed away from home (think restaurants) rose by 0.6 percent.

Prices of new motor vehicles were flat in December while used vehicle prices fell by 1.1 percent, whereas our forecast anticipated a moderate increase in new vehicle prices and a smaller decline in used vehicle prices, which combined to account for around one-tenth of a point of our forecast miss on the core CPI. The sizable drop in used vehicle prices contributed to the measure of core goods prices being flat in December, whereas the BLS's measure of core goods prices excluding used vehicles was up by 0.2 percent, leaving it up 1.4 percent year-on-year. Apparel prices were up 0.6 percent, though this reflected a smaller than normal December decline in not seasonally adjusted prices. This is a theme running more broadly through the data; in our preview of the December CPI data, we noted that higher tariffs might mean less holiday season discounting of goods prices than is typically seen in the month of December, and the decline in the not seasonally adjusted index of core goods was smaller than has been typical for the month.

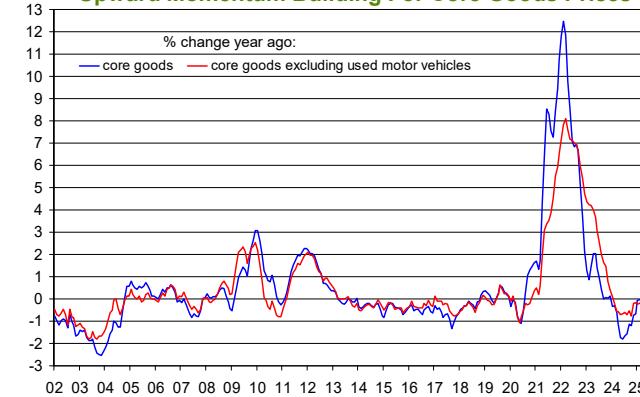
Core services prices were up 0.3 percent in December. Primary and owners' equivalent rents firmed as we anticipated, while increases in lodging rates and air fares were even firmer than our forecast anticipated. Note that unadjusted lodging rates rose in December, contrary to the typical decline, while the 0.5 percent decline in unadjusted air fares was substantially smaller than the typical December decline. This suggest underlying strength in discretionary services spending in December. At the same time, however, sharp declines in prices for cell services and financial services weighed on overall services prices.

Many are rushing to conclude what the December CPI data will mean for the FOMC, though we're not sure why. The CPI data come with so many mixed signals and questions that, while pretty much any argument can be supported, no argument can be proven. We expect that to remain the case over the next several months.

Moderation, But How Much Is Genuine?



Upward Momentum Building For Core Goods Prices



Services Price Inflation Bottoming Out?

