

Economics

ECONOMIC FLASH!

economics.cibccm.com

February 13, 2024

US CPI: Fed more comfortable easing in H2 2024

by **Ali Jaffery** ali.jaffery@cibc.com

Consumer Price Index (monthly change, %)	Jan 2024	Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jan NSA YoY%
All items	0.3	0.2	0.2	0.1	0.4	0.5	3.1
Ex-food/energy	0.4	0.3	0.3	0.2	0.3	0.2	3.9
• Ex-food	0.3	0.2	0.2	0	0.4	0.6	3.2
• Ex-energy	0.4	0.3	0.3	0.2	0.3	0.2	3.7
Energy	-0.9	-0.2	-1.6	-2.1	1.2	4.4	-4.6
Services	0.7	0.4	0.5	0.3	0.5	0.4	4.9
Housing	0.6	0.3	0.4	0.3	0.5	0.3	4.6
Fuels & util.	1.2	0.2	0.8	0.2	0.5	0.5	-0.7
Food/beverages	0.4	0.2	0.2	0.3	0.2	0.2	2.6
• Food	0.4	0.2	0.2	0.3	0.2	0.2	2.6
Apparel	-0.7	0.0	-0.6	0	-0.3	0.2	0.1
Transportation	-0.6	0.1	-0.2	-0.7	0.3	2	1.6
Medical care	0.5	0.4	0.5	0.2	0.1	0.1	1.1
Recreation	0.5	0.4	-0.2	0.1	0.4	-0.2	2.8
Education, comm.	0.4	0.1	-0.3	-0.2	0.1	0	0.0
Other good, serv.	0.5	0.0	0.4	0.6	0.6	0.4	5.7
Commodities	-0.3	0.0	-0.4	-0.3	0.1	0.7	0.1

Source: Haver Analytics.

- Some drama in today's above consensus January CPI report. Core prices rose by 0.4% m/m, one notch expectations and the December reading. Headline inflation similarly was a notch above expectations at 0.3%. In year-over-year terms, core inflation remained unchanged 3.9% and headline inflation decreased to 3.1% from 3.4% in December. Core services prices accelerated to 0.7% as shelter ran hotter in the month. While core goods prices remained in deflationary territory with a 0.3% drop. Today's release also incorporates new seasonal factors and an updated methodology for used car prices. Overall, today's report shows that Powell's desire to get a bit more disinflation out of services is not happening yet. But the silver lining here is that the rebalancing in the goods sector, particularly the used car segment, likely continues to have more room to run. It's also important to remember that the Fed's preferred gauge is PCE and not CPI and the difference of shelter weights (36% versus 15%) will likely mean a somewhat more tame core PCE number, likely around 0.3% m/m. This increases our conviction in our call that the Fed will be more comfortable easing in the second half of this year.
- The largest part of the increase in headline prices today was due to higher shelter costs, accounting for about two-thirds of the overall rise. The Fed has remained very confident that shelter costs will eventually come down given the decline in market-based measures of rent. But we are less sure given that progress in brining down owner's

equivalent rent (OER) has clearly stalled. The BLS estimates the average owner costs for home owners to calculate OER. Given limited turnover in the housing market and as consequence still elevated prices, combined with mortgage rates which had been rising rapidly until a few months ago -- perhaps these forces are pushing this estimated component higher. The good news is that mortgage rates have come down somewhat and home price gains have also slowed. Regardless, the stickiness in shelter costs will weigh on the FOMC's mind and supports our view that the Fed will not ease policy until the second half of the year, at least partly to prevent stoking the housing market.

- Non-housing services also were very strong in the month rising 0.9% m/m, up from 0.3% in December. For perspective, that is the third highest monthly pace in this component we have seen this cycle. It was broad-based across categories. The updated seasonal adjustment methodology combined with updating pricing for the new year, whether medically regulated increases or by firms, could be causing some distortion here. But certainly the broad-based nature of the increase that comes on a background of very strong wage and employment increases in recent months means the Fed will be cautious when coming to any judgements here and wait to see whether the dust settles in this area. If shelter costs ultimately do continue to prove sticky, the Fed will need this area of the basket to show even more progress to feel it can confidently can reach 2% inflation given non-housing services have a much larger weight in core PCE.
- Core goods prices were in disinflation territory in the month as the lags from normalization of supply chains and more restrictive monetary policy continued to feed through into prices. Once again, this was driven by substantial price level reversion in used car prices. Ending two months of rebounding prices, used car prices dipped by 3.4% in the month, their largest monthly price drop this cycle. The updated methodology for this component, which now adjust the mileage based on the age of the car rather than the make or model, could be adding some extra pressure that could persist as price level reversion continues. Automakers are increasingly offering more incentives to customers.

Implications & actions

Re: Economic forecast — Today's report reinforces our call that the Fed will be hold until the second half of 2024. Progress on core inflation stalled today for the first time in a over six months. The substantial progress on core inflation achieved in the second half of 2023 still sets the Fed up to be less willing to tolerate a material slowing of the economy.

Re: Markets — Both bond yields and the greenback rose as core inflation surprised to the upside.

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority, and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

© 2024 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.

CIBC Capital Markets – PO Box 500, 161 Bay Street, Brookfield Place, Toronto, Canada M5J 2S8 – Bloomberg @ CIBC