

Economics

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US CPI (Jan): Fed to continue its wait-and-see approach

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Consumer Price Index (monthly change, %)	Jan 2026	Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jan NSA YoY%
All items	0.2	0.3	N/A	N/A	0.3	0.3	2.4
Ex-food/energy	0.3	0.2	N/A	N/A	0.2	0.3	2.5
• Ex-food	0.2	0.2	N/A	N/A	0.3	0.3	2.3
• Ex-energy	0.3	0.3	N/A	N/A	0.2	0.3	2.6
Energy	-1.5	0.3	N/A	N/A	1.4	0.7	-0.1
Services	0.4	0.3	N/A	N/A	0.2	0.3	3.2
Housing	0.2	0.4	N/A	N/A	0.2	0.3	3.4
Fuels & util.	0.2	0.8	N/A	N/A	-0.3	0.0	6.1
Food/beverages	0.2	0.6	N/A	N/A	0.2	0.4	2.8
• Food	0.2	0.7	N/A	N/A	0.2	0.4	2.9
Apparel	0.3	0.3	N/A	N/A	0.5	0.3	1.7
Transportation	-0.3	0	N/A	N/A	0.8	0.8	-1.1
Medical care	0.3	0.4	N/A	N/A	0.2	-0.1	3.2
Recreation	0.5	1.2	N/A	N/A	0.4	-0.1	2.5
Education, comm.	0.4	-0.9	N/A	N/A	0.0	0.0	0.5
Other good, serv.	1.3	0.3	N/A	N/A	0.4	0.3	5.9
Commodities	-0.2	0.2	N/A	N/A	0.5	0.4	1.0

Source: Haver Analytics.

- **Headline CPI** came a notch below expectations at 0.2% m/m and core CPI came matched forecasters predictions at 0.3% m/m. The annual revisions to seasonal adjustment factors resulted in modest downward revisions to core in the last several months. On an annual basis, headline and core inflation rates each moved down a tick to 2.4% and 2.5% respectively, which is very close to PCE at target on a year-over-year basis. Core goods prices were flat in the month, largely reflecting a another big drop in used car prices, but that masks an increase in goods prices elsewhere, an indication of an increase in tariff-pass through in the month, although the overall tariff pass-through remains incomplete. Services costs rose due to higher transportation service costs which at least on the surface have the feeling of a price level shock as it is coming mostly from higher car and truck rental rates and car registration fees. That force is offsetting subdued shelter, which continues its downward trend. Today's data is telling us inflation pressures are fairly subdued as soft car prices are offsetting some higher prices on tariffed durable goods, shelter costs are coming down and a softening labor market is keeping wage pressures subdued.
- The Fed won't be changing its wait-and-see approach based on today's data, the jobs data last week or the upcoming GDP report. They want to see the reaction of the economy to the step down in rates over the last quarter or so, and also how the political forces shape up vis-à-vis tariffs and how large the fiscal impulse is from the One Big Beautiful Bill Act (OBBA). The Supreme Court review of IEEPA and symbolic votes against US trade policy in the House and

the Senate mean the dust has not yet settled, and estimates of how much the average household may receive in tax refunds is material. That being said, we don't foresee inflation being a large hurdle for the Fed to cut rates and see incomplete pass-through remaining as carmakers are unwilling to pass-through tariffs materially, shelter remaining subdued and the cooling in the job market to keep a lid on wages. Expectations have remained well anchored and a modest yet temporary burst in activity from a splurge from low-income households as tax refunds come out, likely won't change that or these other forces.

Implications & actions

Re: Economic forecast — We expect the Fed to cut rates in June and July of this year.

Re: Markets — Bond yields and the dollar moved lower following today's release, likely on the downward surprise in headline and soft underlying details of today's report.

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