Inflation: Consumer prices rise 3.1% in January, defying forecasts for a faster slowdown

Alexandra Canal
·Senior Reporter
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- ^DJI+0.40%
- ^IXIC+1.30%
- ^GSPC+0.96%

US consumer prices rose more than expected in January, according to the latest data from the Bureau of Labor Statistics released Tuesday morning.

The Consumer Price Index (CPI) rose 0.3% over the previous month and 3.1% over the prior year in January, slightly higher than December's 0.2% month-over-month increase but a deceleration from December's 3.4% annual gain.

Both measures were higher compared to economist forecasts of a 0.2% month-over-month increase and a 2.9% annual increase, according to data from Bloomberg.

On a "core" basis, which strips out the more volatile costs of food and gas, prices in January climbed 0.4% over the prior month and 3.9% over last year.

Investors were closely watching the print for clues about when the Federal Reserve will begin cutting interest rates. After the data's release, markets priced in a 94% chance the central bank will hold rates steady at its meeting next month, up from 84% on Monday.

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Stocks moved lower in early trading following the report while the yield on the 10-year Treasury note ticked up about 10 basis points to trade near 4.3%.

"It is too early to declare victory over inflation," wrote Torsten Sløk, partner and chief economist at Apollo, which is the parent company of Yahoo Finance. "Maybe the last mile was indeed more difficult."

Shelter, food prices remain sticky as gas falls

Notable call-outs from the inflation print include the shelter index, which rose 6% on an unadjusted, annual basis and 0.6% month over month. This was a particularly high rate after the index rose 0.4% on a monthly basis in December.

Sticky shelter inflation is largely to blame for higher core inflation readings, according to economists.

The index for rent and owners' equivalent rent rose 0.4% and 0.6% on a monthly basis, respectively. Owners' equivalent rent is the hypothetical rent a homeowner would pay for the same property.

Other indexes that rose in January included motor vehicle insurance and medical care. The index for used cars and trucks and the index for apparel were among those that decreased over the month, the BLS noted.

Used car prices, which have been steadily decreasing since October, fell 3.4% from December to January and 3.5% on an annual basis.

The food index increased 2.6% in January over the last year, with food prices rising 0.4% from December to January. The index for food at home increased 0.4% over the month after rising just 0.1% in December.

Food away from home rose 0.5% month over month after rising 0.3% in December.

Energy prices, meanwhile, continued to fall, declining 4.6% annually and 0.9% month over month.

Fuel oil led the drop, with prices decreasing 4.5% from December to January. Gas prices ticked down 3.3% month over month after falling just 0.6% in December.

To hike or not to hike?

Annual inflation has remained above the Federal Reserve's 2% target. But the Fed's preferred inflation gauge, the core Personal Consumption Expenditures (PCE) price index, has come in below that rate on a six-month annualized basis, boosting hopes the central bank could begin to cut interest rates.

Tuesday's report, however, will temper those expectations.

"This was a bad report for those betting the Fed is going to start decreasing interest rates soon," Eugenio Alemán, chief economist at Raymond James, wrote in reaction to the hotter-than-expected print.

Federal Reserve Board Chair Jerome Powell speaks during a news conference about the Federal Reserve's monetary policy at the Federal Reserve, Wednesday, Jan. 31, 2024, in Washington. (AP Photo/Alex Brandon) (ASSOCIATED PRESS)

Ellen Zentner, chief US economist at Morgan Stanley, added: "The acceleration in core PCE is aligned with our view of a bumpy path ahead. We think that sequential prints in the first quarter of 2024 will be overall higher than what we have seen in the last 6 months. This acceleration will be one factor delaying the decision to start cutting rates to June this year."

Citi, meanwhile, warned that the hot inflation print will likely have an impact on the recent stock market rally.

"Strong core CPI is not a game changer but likely to drive a short-term pullback," Stuart Kaiser, head of Citi's US equity trading strategy, wrote. "With strong growth data in the background, it will be hard for the Fed to cut as early as some investors hoped and raise market concerns about an overheating type scenario despite very restrictive policy."

"We should get a pullback here, maybe in the 2-4% type range, but that is somewhat limited by the fact that the economy is still quite strong," he continued.