CPI report: January inflation data complicates Fed plans as soaring egg, energy costs push consumer prices higher

Alexandra Canal · Senior Reporter
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New inflation data out Wednesday showed consumer prices rose more than forecast in January as core prices reversed last month's easing with the Federal Reserve's path forward in focus.

The latest data from the Bureau of Labor Statistics showed that the Consumer Price Index (CPI) increased 3% over the prior year in January, an uptick from December's 2.9% annual gain in prices.

The index rose 0.5% over the previous month, the largest monthly headline increase since August 2023 and a slight acceleration from the 0.4% rise seen in December. Economists had expected a 0.3% increase.

Seasonal factors like higher fuel costs and continued stickiness in food inflation kept the headline figures elevated. Notably, the index for eggs increased 15.2%, the largest increase since June 2015. It accounted for about two-thirds of the total monthly food-at-home increase, according to the BLS. Year over year, egg prices have surged 53%.

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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, higher than December's 0.2% monthly gain and the largest monthly rise since April 2023.

Core prices rose 3.3% over last year, marking an uptick from the 3.2% seen in December, which was the first time since July that year-over-year core CPI showed a deceleration in price growth.

Core inflation has remained stubbornly elevated due to sticky costs for shelter and services like insurance and medical care. Shelter did show some signs of easing last month, rising 4.4% on an annual basis, the smallest 12-month increase in three years. Similarly, the year-over-year increase in rent was the coolest since February 2022.

It was a different story for used-car prices, which saw another strong uptick for the fourth consecutive month. The index rose 2.2% in January after a 1.2% increase in December and a 2% monthly gain in November.

Used cars likely contributed to the overall increase in core goods, which hit its highest level since May 2023.

Federal Reserve Chair Jerome Powell testifies during the Senate Banking, Housing, and Urban Affairs Committee hearing titled "The Semiannual Monetary Policy Report to the Congress" in the Hart Building on Feb. 11, 2025. (Tom Williams/CQ-Roll Call, Inc via Getty Images) · Tom Williams via Getty Images

Although inflation has been slowing, it has remained above the Federal Reserve's 2% target on an annual basis, with economists and Fed officials pointing to a "bumpy" road ahead.

"There's no sugarcoating this. This is not a good print," Claudia Sahm, chief economist at New Century Advisors and former Federal Reserve economist, told Yahoo Finance's Morning Brief program.

"The one thing to say is this is a familiar disappointment," she continued, noting the start of a new year has previously contributed to upside surprises. "Having a hot print in January in recent years has been a common occurrence. It's also been a common occurrence that's dissipated as the year has gone on. So this isn't a deal breaker for the year as a whole, but it is certainly not a good way to start things off."

Seema Shah, chief global strategist at Principal Asset Management, agreed, adding that "seasonality and one-off factors may have played some role in the upside surprise."

However, "the combination of average earnings growth surprising to the upside last week, the supercore services inflation number moving sharply higher today, and the government's policy agenda threatening to raise inflation expectations is almost too convincing to dismiss," she said.

Fed's complicated path forward

The ascension of Donald Trump to the presidency has further muddied the inflation outlook, with economists arguing the US could face another inflation resurgence as Trump commits to a protectionist trade policy. That's likely to complicate the central bank's path forward for interest rates.

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On Monday, President Trump announced global 25% tariffs on steel and aluminum imports, which will take effect on March 12. Tariffs of 25% on Mexico and Canada are set to come next month, while 10% duties on China have already been implemented.

Shortly after the release, traders scaled back expectations of a Fed rate cut, pricing in just one cut from the central bank this year. Stocks also sold off in the immediate aftermath of the results before somewhat recovering by mid-afternoon trade.

"The Fed is never going to overreact to one month of data," Sahm said. "They've been telling us since December that they are in no hurry to adjust rates again, and that will be reinforced today."

"We're back in the case of last year where we're going to have to see months and months — getting out of the first quarter — of better inflation data before the Fed gets comfortable with it. So it really does push the timeline probably into the second half of the year [if] this ends up being the outlier."

Alexandra Canal is a Senior Reporter at Yahoo Finance. Follow her on X @allie_canal, LinkedIn, and email her at alexandra.canal@yahoofinance.com.