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## Does the January CPI report signal a shift in inflation?

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**The January Jobs report showed private sector wages rising 0.5%, the highest in 18 months. However, indicators like a low quits rate, declining job openings and labor-saving tech investments suggest more subdued wage momentum.**

The January CPI report revealed stalled progress towards the Fed's 2% inflation target, giving the Fed more reason to maintain its current stance and wait out the "policy fog" before considering rate reductions. Inflation exceeded expectations, with core inflation holding a 3.3% annual rate for five of the six past months. Headline CPI rose 0.5% after a 0.4% rise in December, while core CPI rose 0.4% following a 0.2% rise. Annually, headline CPI climbed 3.0% and core CPI rose 3.3%.

Key inflation categories showed varied trends in January:

- **Energy and food:** Energy rose 1.1% due to higher gas prices, while grocery prices accelerated 0.5%, with meats, fish and eggs collectively up 1.9%.
- **Core goods:** Used cars (+2.2%) and prescription drugs (+2.5%) drove the upside, while apparel and new cars were softer. Some manufacturers may have raised prices in anticipation of new tariffs, as suggested by manufacturing PMI and regional Fed surveys.<sup>1</sup>
- **Core services:** Auto insurance firmed 2% after a period of lower increases, while airfares cooled slightly following a hectic holiday travel season. The crucial shelter indices, OER and rent, remained steady at 0.3%, but hotels jumped 1.7%.
- **Labor market:** The January Jobs report showed private sector wages rising 0.5%, the highest in 18 months. However, indicators like a low quits rate, declining job openings, and labor-saving tech investments suggest more subdued wage momentum.
- **Expectations:** Following tariff developments, UMich 1-yr consumer inflation expectations jumped to 3.3% from 2.8%, driven by respondents identifying as Democrat.

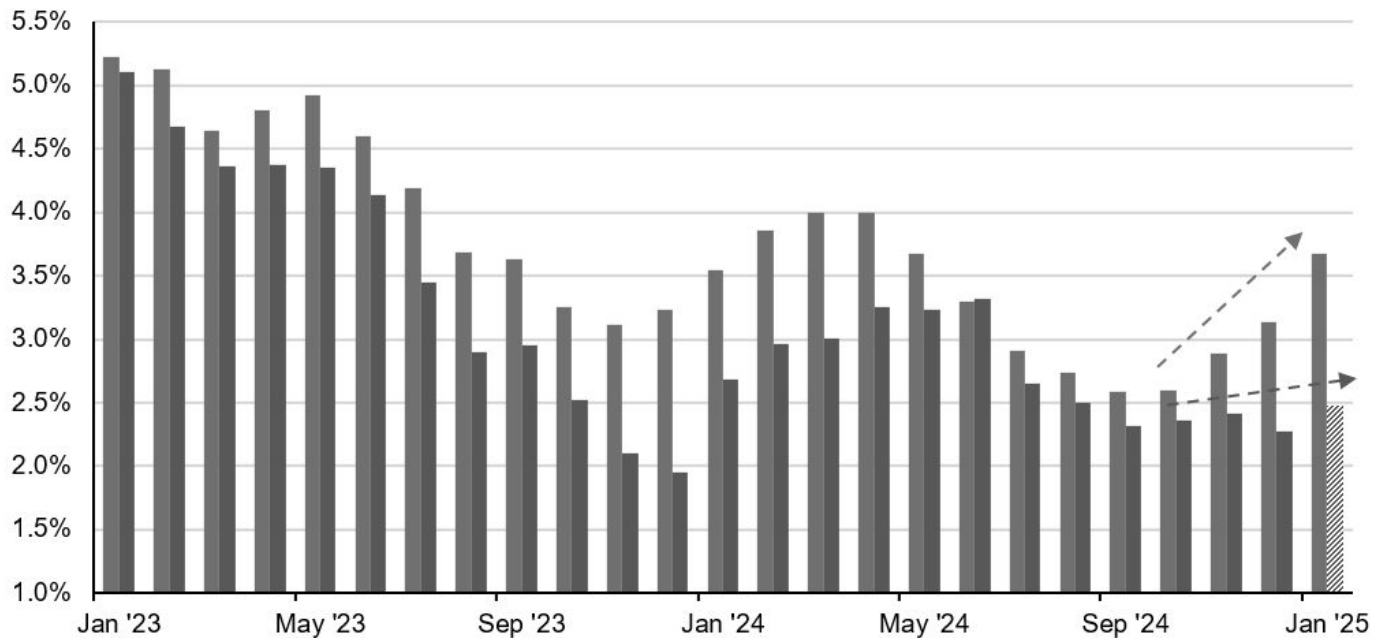
Dispersion across inflation measures also raises doubt about the durability of inflation acceleration. As shown in the chart, while the 6-month annualized rate of Core CPI accelerated to 3.7% from 2.6% three months ago, Core PCE is expected to show only a 0.1%-point acceleration.<sup>2</sup> This gap likely reflects hotter price increases for new and used cars in recent months, which have a greater weighting in CPI than in PCE.

Overall, the January CPI report highlighted potential inflation risks amid recent tariff developments, which could either raise inflation, hinder growth, or both. Despite these challenges, strong underlying forces may still guide inflation towards the Fed's 2% target this year. But it is a delicate balance. Inflation expectations are bubbling, and companies with pricing power are capitalizing by increasing prices in high-demand areas.

In his recent testimony to Congress, Fed Chair Powell emphasized the importance of patience. The past two weeks have marked the beginning of what could be a prolonged multi-front trade war, with negotiations in a state of flux. As a result, the Fed is likely to proceed cautiously until the situation stabilizes, particularly as the January CPI report suggests current inflation progress does not yet warrant additional easing measures.

## While Core CPI has accelerated in recent months, Core PCE has remained stable

6-month annualized rates, seasonally adjusted



Source: BLS, J.P. Morgan Asset Management. February 2025 Core PCE data is a J.P. Morgan Asset Management estimate based on January CPI and PPI data. Data are as of February 12, 2025.

<sup>1</sup>The output price index from the S&P manufacturing PMI survey rose to 55.5, a 10-month high in January. The regional Fed surveys also show steady climbs in the “prices received” indexes.

<sup>2</sup>This references a J.P. Morgan Asset Management estimate of January Core PCE in lieu of official data.

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