Indicators

United States

Consumer Price Index

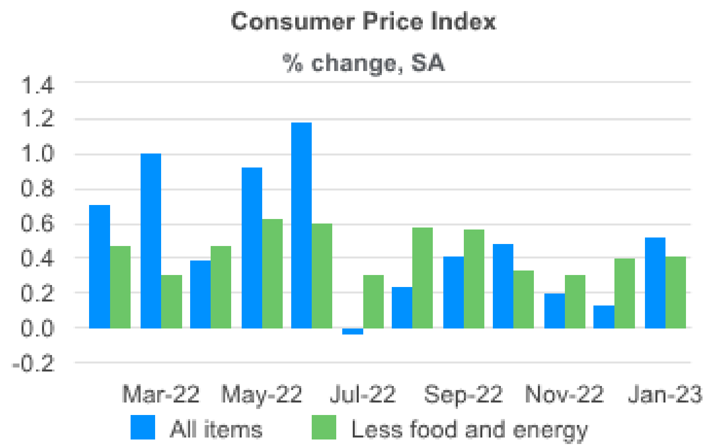
Date Published

Feb 14, 2023

Bernard Yaros

Actual	0.5% m/m
Previous *	N\A
Moody's Analytics	0.5% m/m
Consensus	0.4% m/m
Coverage	Jan. 2023
Next Release	Mar 14, 2023
Updated	Feb 14, 2023

Definition Source



Customize this chart

First Take

This Valentine's Day, the U.S. consumer price index delivered a heartbreak to those hoping for some relief on the inflation front. The CPI rose 0.5% in January, exactly as our above-consensus forecast had expected. This comes on the heels of 0.1% and 0.2% gains in December and November, respectively. The CPI for energy was up 2% after falling 3.1% in December. Within energy, the CPI for gasoline increased 2.4%. Elsewhere, food prices rose 0.5%, a touch faster than the 0.4% gain in the prior month. Excluding food and energy, the CPI was up 0.4% for the second month in a row. Used-vehicle prices fell 1.9%, but apparel, medical care commodities, and transportation services all accelerated.

U.S. Consumer Price Index, % change, SA

	Jan 23	Dec 22	Nov 22	Oct 22	Sep 22	Aug 22	Jul 22	Jun 22
CPI	0.5	0.1	0.2	0.5	0.4	0.2	0.0	1.2
Food	0.5	0.4	0.6	0.7	0.8	0.8	1.1	1.0
Energy	2.0	-3.1	-1.4	1.7	-1.7	-3.9	-4.7	6.9
Core CPI	0.4	0.4	0.3	0.3	0.6	0.6	0.3	0.6
Goods	0.1	-0.1	-0.2	-0.1	0.0	0.4	0.1	0.6
Services	0.5	0.6	0.5	0.5	0.8	0.6	0.4	0.6

U.S. Consumer Price Index, % change yr ago, SA

	Jan 23	Dec 22	Nov 22	Oct 22	Sep 22	Aug 22	Jul 22	Jun 22
CPI	6.3	6.4	7.1	7.8	8.2	8.2	8.4	8.9
Food	10.1	10.5	10.7	10.9	11.2	11.3	10.9	10.4
Energy	8.4	7.1	13.1	17.7	19.9	23.8	32.5	41.3
Core CPI	5.5	5.7	6.0	6.3	6.6	6.3	5.9	5.9
Goods	1.3	2.2	3.7	5.1	6.6	7.0	6.8	7.0
Services	7.2	7.0	6.8	6.7	6.7	6.1	5.6	5.5

The Numbers

- The U.S. CPI was in line with our above-consensus forecast. The CPI was up 0.5% in January after rising 0.1% in December and 0.2% in November. The monetary policy implications from the January CPI print are important, as it highlights that the path down to the Federal Reserve's 2% inflation target may not be as smooth as some had hoped. As a result, the Fed will remain as wary as before to declare victory in its fight against inflation, and another 25-basis point rate hike in May could be in the cards. Our baseline forecast expects only another quarter-point hike in March.
- Energy went from a drag to a driver of the CPI. The CPI for energy rose 2% after falling 3.1% in December and 1.4% in November. Within energy, the CPI for energy commodities was up 1.9% following a 7.2% decline previously. The CPI for gasoline rose 2.4%, which boosted the headline CPI by nearly 0.1 percentage point. Energy service prices increased 2.1% after rising by 1.9% in December. Electricity prices were up 0.5%, while utility gas service prices climbed 6.7%.

- The CPI for food increased 0.5% after rising 0.4% in December. Prices of food at home rose 0.4%. Cereal/bakery product prices increased 1%. Elsewhere, dairy prices were unchanged after rising 0.2% in December. Nonalcoholic beverage prices were up 0.4%. The CPI for food away from home increased 0.6% after rising by 0.4% in December.
- Excluding food and energy, the CPI rose 0.4% for the second month in a row. The increase in the core CPI was in line with our and consensus expectations. Within the core CPI, prices of used cars and trucks fell by 1.9% after falling 2% in the two prior months. New-vehicle prices were up 0.2% following a 0.6% gain in December.
- The CPI for airfares fell 2.1% for the second month in a row. Apparel prices rose 0.8% after rising only 0.2% in December. Medical care commodity prices were up 1.1%, a sharp acceleration from the 0.1% gain in December. Medical care service prices fell 0.7% after rising 0.3% in the prior month. In particular, the CPI for health insurance declined 3.6% because of a methodological quirk in the way the BLS measures the price for health insurance.
- The CPI for owners' equivalent rent rose 0.7%, a touch lighter than the 0.8% gain in December. The CPI for rent of primary residence also increased 0.7%, down slightly from the 0.8% gain in the prior month. Rents are normally fairly sticky, but the forecast is for the CPI for owners’ equivalent rent to peak on a year-over-year basis sometime in the first half of 2023. The CPI for lodging away from home increased 1.2% after rising 1.1% in the prior month.
- Transportation services prices were up 0.9% after increasing 0.6% in December. In particular, the CPI for car and truck rentals rose by 3% after increasing by only 0.8% in December. The CPIs for leased cars and trucks, motor vehicle fees and insurance, and motor vehicle maintenance and repair all grew by 1% or more in January.
- On a year-ago basis, the CPI was up 6.3% (seasonally adjusted) and 6.4% (not seasonally adjusted). On a seasonally adjusted basis, this is a slight deceleration from the 6.4% pace in the prior month, putting annual headline CPI inflation at its lowest since October 2021. The core CPI was up 5.5% on a year-ago basis in December, compared with the 5.7% gain in the prior month.
- The typical American household needs to spend $395 more a month to purchase the same goods and services it did a year ago because of inflation.

Behind the Numbers

The BLS released the U.S. consumer price index for January on Valentine’s Day, and it was a heartbreaking reminder that the path down to the Federal Reserve’s 2% inflation target may not be as smooth as one would hope. The CPI was up 0.5% after posting smaller monthly gains in December and November. As expected, energy turned from a drag to a driver of the headline index, with the CPI for gasoline up 2.4%. Food prices firmed some as well.

In line with our expectations, the CPIs for tenant rent and owners' equivalent rent (the hypothetical rent that homeowners pay to themselves to live in their own homes) are each expected to have risen 0.7% in January. In the CPI, rental inflation is measured as the average change in rent for all tenants. Because most renters are locked into long-term leases for six to 12 months, an increase in the spot price of rent will not immediately affect all renters, only those moving into a new rental unit. The broader scope of the CPI for rent, along with delays between actual rent changes and when rental units are surveyed by the BLS, means that sudden changes in the rent growth for new tenants will show up in the CPI for rent with a lag.

The BLS recently created a new-tenant repeat rent index that is based only on the leases of tenants that recently moved in. Year-over-year growth in the NTRR index peaked at nearly 12% in the second quarter of 2022 and decelerated to 6% in the following quarter. The NTRR index typically leads the CPI for rent by four quarters, so year-over-year growth in the latter should turn a corner sometime in mid-2023, which will be an important development, given shelter's outsize weight in the CPI. There are more than 940,000 multifamily units that are under construction, the largest pipeline since 1973. As more of these units are completed this year, this will push up rental vacancy rates, which in turn will apply downward pressure on new leases and also lease renewals.

Each year with the release of the January CPI, the BLS recalculates seasonal adjustment factors, which lead to revisions to the seasonally adjusted CPI and its components for the prior five years. The updated seasonal factors have somewhat altered the trajectory of inflation in 2022 from what we previously thought. After revisions, core CPI inflation was not as strong during the summer. However, the core CPI did not decelerate as fast during the final quarter of 2022. Annualized over the prior three months, the core CPI was up 4.3% after revisions, compared with 3.1% prior to revisions.

Starting with the January 2023 CPI, the BLS will update the expenditure weights in the calculation of the CPI annually rather than biennially. Spending weights reflect the share of total household consumption that is associated with each item in the CPI. This will improve the relevance of the spending weights and the accuracy of the CPI. Thanks to this change to the BLS's weighting methodology, information on consumer spending patterns that was gathered in 2021 and processed in 2022 will be used in the 2023 CPI. In contrast, the 2022 CPI was based on consumption patterns during 2019 and 2020. The greater relevance of the spending weights is particularly important today, as the pandemic has scrambled consumer spending trends.