

US Watch

January CPI Inflation: detour from disinflation

CPI inflation topped expectations

The January Consumer Price Index topped expectations, raising concerns that the road ahead for inflation might be bumpy. The core CPI rose by 0.4% m/m (0.392% unrounded) and headline increased by 0.3% (0.305% unrounded). We and consensus were looking for increases of 0.3% and 0.2% respectively. As a result, headline inflation fell by three tenths to 3.1% y/y but core inflation held at 3.9% y/y.

A continuation of the goods-services divergence

As we had flagged in our preview, the composition of inflation in today's report was likely to be of interest for the Fed. We think the Fed would like to see broader disinflation and more of a moderation in services inflation. It likely was not encouraged by today's report as core goods prices fell by 0.3% m/m owing in large part to a 3.4% decline in used car prices. However, core services inflation accelerated to 0.7% m/m, reflecting a pickup in shelter and non-shelter services.

Noise or signal

While the report came in above our expectations and the details were not the most encouraging for the Fed, we do see reason to fade some of the strength. First, some of the acceleration appears to reflect mean-reversion in categories that had been declining or cooling towards the end of the year. Second, within shelter there was an atypically large divergence between rent inflation and OER inflation of 0.2ppt. We would fade this divergence and put more weight on the slight moderation in rent inflation seen this month. Third, January has tended to be one of the stronger months for inflation in recent years. It's possible that residual seasonality is an issue, resulting in stronger prints.

PCE read-through

It's important to remember that the Fed targets PCE inflation rather than CPI. Therefore, the read-through to PCE is what matters for monetary policy. Based on today's CPI numbers, we estimate core PCE could also accelerate from 0.17% m/m to 0.30% m/m in January. We will have a better sense of the read-through when we get the January PPI data on Friday.

Fed implications

Today's CPI report reinforces the Fed's concern that core services inflation will remain sticky because of a tight labor market. In our view, a March cut is now firmly off the table and the chances of a May cut have significantly reduced. But we remain comfortable with our call for rate cuts to begin in June. While risks are now obviously skewed toward a delay, there will be four more CPI prints before the June decision, which leaves plenty of time to re-establish the disinflation narrative if (as we expect) the January inflation data prove to be a blip rather than the start of a new trend.

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Macro

United States

US Economics

BofAS

Stephen Juneau

US Economist

BofAS

+1 202 442 7429

stephen.juneau@bofa.com

Aditya Bhawe

US Economist

BofAS

+1 646 855 9929

aditya.bhawe@bofa.com

Michael Gapen

US Economist

BofAS

+1 646 855 3270

michael.gapen@bofa.com

US Rates Research

BofAS

Meghan Swiber, CFA

Rates Strategist

BofAS

+1 646 743 7020

meghan.swiber@bofa.com

G10 FX Strategy

MLI (UK)

Alex Cohen, CFA

FX Strategist

BofAS

alex.cohen2@bofa.com

[See Team Page for List of Analysts](#)

Glossary

CPI = Consumer Price Index

PPI = Producer Price Index

PCE = Personal Consumption Expenditures (Price Index)

OER = Owners' Equivalent Rent

NSA = Not Seasonally Adjusted

OIS- Overnight Indexed Swap

Rates and FX: Financial market reaction

Following the print, the rates market removed 17bps of cuts from '24 and is pricing only 35% probability of a cut by May (from 64% prior to data). The front end of the inflation curve is rallying notably as we would expect on a strong print with important firm subcomponents that are suggesting that services inflation is not moderating as much as the Fed would like; 1y and 2y inf swaps are up 15 and 8 bps, respectively. This data supports three themes our rates team has been discussing: 1- disinflation priced at the front end inflation curve has been too optimistic and has underpinned market pricing for cuts beyond what Fed has guided (see: [Risks to market's downhill CPI path](#)) 2- longs are a prominent/ crowded trade in USTs (see: [Longs remain dominant but challenged position](#)) , 3- we like being long EUR vs US rates given divergent data backdrop between the two regions (see: [Long 10y Bunds vs USTs](#)).

The USD appreciated across the board on the CPI report and concurrent re-pricing of Fed expectations, rising between 0.6 and 1.1% vs. other G10 currencies. On an index level, the DXY has moved back to its highest level in 3 months, having now more than fully retraced the move lower last year on back of the Dovish December FOMC. As overall conviction in FX remains low (See: [FX and Rates Sentiment Survey: Self confident 09 February 2024](#)) we have argued that the USD will struggle to adjust lower as long as US data continues to reflect resiliency/"no-landing" and Fed cutting expectations continue to get pushed back. Today's inflation data fully keeps the no-landing scenario in the US alive. That said, the theme of upside inflation risks and CB's pushing back on cut expectations is not limited to the US, with policy makers at the BOE and BOC, for example also recently focusing on upside inflation risks. As such, the GBP and CAD have modestly lagged the more pronounced depreciation elsewhere in the G10, suggesting a continued nuanced outlook for G10 going forward.

Exhibit 1: CPI Forecast vs. Actual (SA % m/m unless specified otherwise)

Below is a table that compares our bottom-up CPI forecasts to actuals

NSA Index (level)	January Forecast		
	Actual	Forecast	Error
NSA Index (level)	308.417	307.961	0.456
Headline CPI (All Items)	0.31%	0.16%	0.15%
Food	0.4%	0.2%	0.2%
Energy	-0.9%	-1.5%	0.6%
Core CPI	0.39%	0.29%	0.10%
Core goods	-0.32%	-0.27%	-0.05%
Household furnishings and supplies	-0.1%	0.0%	-0.1%
Apparel	-0.7%	0.0%	-0.7%
Transportation commodities less motor fuel	-1.1%	-0.6%	-0.5%
<i>Of which:</i>			
New vehicles	0.0%	0.0%	0.0%
Used cars and trucks	-3.4%	-1.8%	-1.6%
Medical care commodities	-0.6%	0.3%	-0.9%
Recreation commodities	0.8%	-0.5%	1.3%
Other recreational goods	-0.8%	-0.5%	-0.2%
Education and communication commodities	0.6%	-0.5%	1.1%
Alcoholic beverages	0.3%	0.2%	0.1%
Other goods	0.3%	0.2%	0.2%
Core Services	0.66%	0.46%	0.20%
Shelter	0.6%	0.4%	0.2%
<i>Of which:</i>			
Rent	0.4%	0.4%	0.0%
Lodging away from home	1.8%	0.5%	1.3%
OER	0.6%	0.4%	0.1%
Water and sewer	1.1%	0.3%	0.8%
Medical care services	0.7%	0.4%	0.3%
<i>Of which:</i>			
Health insurance	1.4%	1.1%	0.4%
Transportation services	1.0%	1.1%	-0.1%
<i>Of which:</i>			
Airfares	1.4%	1.1%	0.3%
Recreation services	0.4%	0.5%	-0.1%
Education and communication	0.4%	0.3%	0.1%
Other personal services	1.0%	0.2%	0.7%

Source: BLS, BofA Global Research

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Exhibit 4: CPI heatmap (%m/m)

Headline and core CPI rose by 0.3% and 0.4% m/m, respectively, in January

Dec-23 weight	Component	Jan-24	Dec-23	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23
100.0	Headline CPI	0.305%	0.23%	0.16%	0.08%	0.36%	0.51%	0.21%	0.21%	0.11%	0.43%	0.08%	0.38%
13.6	Food	0.39%	0.21%	0.17%	0.29%	0.19%	0.24%	0.19%	0.16%	0.22%	0.03%	0.10%	0.34%
6.7	Energy	-0.9%	-0.21%	-1.56%	-2.13%	1.15%	4.36%	-0.02%	0.49%	-2.96%	0.74%	-2.70%	-0.44%
79.8	Core CPI	0.392%	0.28%	0.31%	0.24%	0.32%	0.23%	0.23%	0.19%	0.36%	0.47%	0.32%	0.47%
18.9	Core Goods	-0.32%	-0.06%	-0.22%	-0.03%	-0.23%	-0.21%	-0.33%	-0.09%	0.42%	0.44%	0.20%	0.13%
16.9	Core Goods ex Used Cars	0.08%	-0.16%	-0.44%	0.03%	-0.01%	0.03%	-0.16%	-0.01%	0.02%	0.06%	0.31%	0.35%
3.5	Household Furnishings and Supplies	-0.13%	-0.32%	-0.53%	-0.11%	-0.30%	0.03%	-0.20%	-0.19%	-0.23%	-0.35%	0.38%	0.63%
2.5	Apparel	-0.70%	0.00%	-0.64%	0.01%	-0.35%	0.15%	0.13%	0.15%	0.20%	0.26%	0.23%	0.60%
6.2	Motor Vehicles & parts	-1.11%	0.31%	0.47%	-0.22%	-0.65%	-0.54%	-0.56%	-0.23%	1.09%	1.10%	0.02%	-0.41%
3.7	New Vehicles	-0.04%	0.18%	-0.01%	-0.06%	0.24%	0.22%	-0.03%	-0.05%	-0.09%	-0.14%	0.32%	0.21%
2.0	Used Cars and Trucks	-3.37%	0.59%	1.37%	-0.41%	-1.79%	-1.86%	-1.47%	-0.60%	3.19%	3.23%	-0.58%	-1.42%
1.5	Medical Care Commodities	-0.61%	-0.12%	0.46%	0.42%	-0.29%	0.56%	0.51%	0.19%	0.65%	0.46%	0.59%	0.15%
2.0	Recreation Commodities	0.77%	-0.54%	-0.60%	0.15%	0.33%	-0.44%	-0.78%	-0.31%	-0.06%	0.27%	0.20%	0.40%
0.9	Education and Communication Commodities	0.62%	-0.19%	-2.55%	-1.27%	0.33%	-0.70%	-1.25%	-0.07%	-0.20%	-0.18%	-0.50%	-0.77%
0.9	Alcoholic Beverages	0.27%	0.12%	-0.09%	0.32%	0.60%	-0.02%	0.20%	0.06%	0.46%	0.42%	0.11%	-0.18%
1.4	Other Goods	0.32%	-0.51%	0.04%	0.93%	0.55%	0.21%	0.46%	0.20%	0.60%	0.19%	0.63%	0.71%
60.9	Core Services	0.66%	0.38%	0.46%	0.34%	0.52%	0.38%	0.43%	0.31%	0.33%	0.48%	0.38%	0.62%
36.2	Shelter	0.63%	0.41%	0.45%	0.34%	0.57%	0.35%	0.48%	0.41%	0.54%	0.48%	0.53%	0.72%
26.8	Owners' Equivalent Rent of Residences	0.56%	0.42%	0.49%	0.42%	0.50%	0.42%	0.50%	0.47%	0.53%	0.57%	0.50%	0.68%
7.7	Rent of Primary Residence	0.36%	0.39%	0.44%	0.47%	0.46%	0.48%	0.47%	0.48%	0.52%	0.58%	0.49%	0.77%
1.3	Lodging Away From Home	1.78%	0.15%	-0.47%	-2.23%	2.81%	-2.13%	0.19%	-1.16%	0.98%	-1.86%	1.41%	1.44%
1.1	Water & Sewer & Trash Collection Services	1.10%	0.14%	0.37%	0.24%	0.26%	0.45%	0.51%	0.40%	0.60%	0.36%	0.33%	0.67%
0.9	Household Operations	#N/A	#N/A	#N/A	#N/A	#N/A	-1.14%	1.79%	0.78%	-1.19%	#N/A	#N/A	#N/A
6.5	Medical Care Services	0.70%	0.50%	0.50%	0.20%	0.25%	-0.04%	-0.31%	-0.06%	-0.05%	-0.06%	-0.51%	-0.50%
6.3	Transportation Services	0.97%	0.09%	1.03%	0.89%	0.72%	1.61%	0.82%	0.44%	0.26%	0.51%	0.88%	1.07%
0.8	Airline Fares	1.40%	0.86%	-0.22%	0.69%	0.25%	2.26%	-3.89%	-5.80%	-3.50%	-2.16%	0.64%	3.25%
3.3	Recreation Services	0.39%	1.15%	0.06%	0.11%	0.52%	-0.11%	0.71%	0.42%	-0.03%	0.74%	0.01%	1.22%
5.0	Education and Communication Services	0.42%	0.16%	0.10%	0.02%	0.06%	0.09%	0.25%	-0.27%	-0.11%	0.07%	0.26%	0.21%
1.5	Other Personal Services	0.95%	0.11%	0.29%	0.26%	0.64%	0.70%	-0.07%	0.23%	0.47%	1.52%	0.47%	1.06%

Source: BofA Global Research, Bureau of Labor Statistics

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Exhibit 5: CPI heatmap (%y/y)

Headline CPI rose by 3.1% y/y in January and core rose by 3.9% y/y

Dec-23 weight	Component	Jan-24	Dec-23	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23
100.0	Headline CPI	3.09%	3.35%	3.14%	3.24%	3.70%	3.67%	3.18%	2.97%	4.05%	4.93%	4.98%	6.04%
13.6	Food	2.57%	2.70%	2.95%	3.30%	3.69%	4.25%	4.86%	5.74%	6.69%	7.65%	8.50%	9.49%
6.7	Energy	-4.56%	-2.02%	-5.44%	-4.53%	-0.45%	-3.62%	-12.47%	-16.74%	-11.66%	-5.06%	-6.42%	5.19%
79.8	Core CPI	3.86%	3.93%	4.01%	4.03%	4.15%	4.35%	4.65%	4.83%	5.33%	5.52%	5.59%	5.54%
18.9	Core Goods	-0.31%	0.12%	0.03%	0.05%	0.01%	0.44%	0.94%	1.39%	2.04%	2.03%	1.47%	0.87%
16.9	Core Goods ex used cars	0.08%	0.39%	0.76%	1.45%	1.64%	2.00%	2.53%	3.08%	3.67%	4.00%	4.20%	4.21%
3.5	Household Furnishings and Supplies	-1.34%	-0.95%	-0.34%	0.69%	0.91%	1.68%	2.24%	3.24%	4.08%	4.77%	5.79%	6.33%
2.5	Apparel	0.06%	0.97%	1.08%	2.61%	2.32%	3.09%	3.18%	3.07%	3.47%	3.65%	3.25%	3.26%
6.2	Motor Vehicles & Parts	-0.76%	0.04%	-0.90%	-2.10%	-2.29%	-1.92%	-1.27%	-0.75%	0.12%	-0.30%	-1.82%	-3.18%
3.7	New Vehicles	0.74%	1.02%	1.33%	1.87%	2.53%	2.92%	3.50%	4.07%	4.66%	5.42%	6.12%	5.83%
2.0	Used Cars and Trucks	-3.47%	-1.31%	-3.75%	-7.14%	-7.99%	-6.64%	-5.64%	-5.15%	-4.22%	-6.56%	-11.15%	-13.58%
1.5	Medical Care Commodities	3.00%	4.74%	4.98%	4.70%	4.24%	4.45%	4.13%	4.21%	4.42%	4.01%	3.59%	3.19%
2.0	Recreation Commodities	-0.64%	-1.20%	-0.62%	-0.37%	0.25%	-0.08%	1.02%	1.96%	2.73%	2.90%	3.16%	2.85%
0.9	Education and Communication Commodities	-6.56%	-7.21%	-7.89%	-7.07%	-7.32%	-8.12%	-7.84%	-7.10%	-6.88%	-8.29%	-10.17%	-10.47%
0.9	Alcoholic Beverages	2.29%	2.54%	2.90%	3.70%	4.24%	3.71%	4.10%	4.42%	4.77%	4.64%	4.53%	4.92%
1.4	Other Goods	4.40%	4.55%	5.10%	5.64%	5.11%	5.01%	6.09%	6.13%	6.58%	6.80%	6.91%	6.96%
60.9	Core Services	5.41%	5.30%	5.49%	5.50%	5.69%	5.90%	6.12%	6.15%	6.57%	6.83%	7.11%	7.26%
36.2	Shelter	6.04%	6.15%	6.51%	6.72%	7.15%	7.27%	7.69%	7.83%	8.04%	8.11%	8.18%	8.10%
26.8	Owners' Equivalent Rent of Residences	6.23%	6.35%	6.68%	6.85%	7.08%	7.32%	7.66%	7.81%	8.05%	8.12%	8.04%	8.01%
7.7	Rent of Primary Residence	6.09%	6.47%	6.87%	7.18%	7.41%	7.76%	8.03%	8.33%	8.66%	8.80%	8.81%	8.76%
1.3	Lodging Away From Home	0.98%	0.17%	0.85%	1.22%	7.33%	2.98%	6.04%	4.54%	3.41%	3.31%	7.26%	6.73%
1.1	Water & Sewer & Trash Collection Services	5.55%	5.19%	5.35%	5.34%	5.25%	5.82%	5.83%	5.71%	5.71%	5.41%	5.39%	5.25%
0.9	Household Operations	#N/A	#N/A	#N/A	6.70%	#N/A	4.79%	#N/A	5.21%	4.55%	8.01%	#N/A	#N/A
6.5	Medical Care Services	0.62%	-0.49%	-0.88%	-1.96%	-2.64%	-2.14%	-1.53%	-0.76%	-0.08%	0.41%	1.03%	2.15%
6.3	Transportation Services	9.53%	9.68%	10.06%	9.23%	9.05%	10.35%	9.03%	8.23%	10.18%	11.03%	13.88%	14.64%
0.8	Airline Fares	-6.43%	-9.35%	-12.16%	-13.16%	-13.36%	-13.29%	-18.63%	-18.90%	-13.56%	-0.93%	17.79%	26.74%
3.3	Recreation Services	5.32%	5.65%	4.79%	5.71%	6.44%	6.10%	6.21%	5.92%	5.76%	6.39%	5.94%	6.34%
5.0	Education and Communication Services	1.27%	1.27%	1.37%	2.29%	2.45%	2.57%	2.72%	2.38%	2.79%	3.13%	3.25%	2.86%
1.5	Other Personal Services	6.83%	6.39%	6.12%	6.67%	6.78%	6.38%	5.95%	6.46%	6.67%	6.30%	5.25%	5.21%

Source: BofA Global Research, Bureau of Labor Statistics

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Research Analysts

US Economics

Michael Gapen

US Economist
BofAS
+1 646 855 3270
michael.gapen@bofa.com

Aditya Bhawe

US Economist
BofAS
+1 646 855 9929
aditya.bhawe@bofa.com

Stephen Juneau

US Economist
BofAS
+1 202 442 7429
stephen.juneau@bofa.com

Shruti Mishra

US and Global Economist
BofAS
+1 646 855 1040
smishra44@bofa.com

Jeseo Park

US Economist
BofAS
+1 646 855 8688
jeseo.park@bofa.com

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