

CPI Inflation Watch

February US CPI Inflation preview: A small confidence boost

Core inflation to decelerate from last month

The February Consumer Price Index (CPI) report should alleviate concerns that inflation is reaccelerating after the January data. While we forecast headline inflation accelerated to 0.4% (0.42% unrounded), we expect a deceleration in core inflation to 0.3% (0.31% unrounded). This would result in y/y headline inflation remaining at 3.1% and a two-tenth decline in core inflation to 3.7%. Last, the NSA headline index should print at 310.312 (see Exhibit 1 for our detailed forecast table).

Headline inflation should get an energy boost

An increase in energy prices is the main reason why we expect headline inflation to accelerate this month despite a deceleration in core inflation. Energy inflation should be boosted by a jump in gasoline prices seen throughout the month.

Divergence in OER and rent should narrow

Meanwhile, we expect core inflation to decelerate in February owing in part to a moderation in owners' equivalent rent inflation (OER). Last month's acceleration in OER inflation was a key reason for the upside surprise on inflation. Indeed, OER inflation exceeded rent inflation by an atypically large 20bp in January. We judge this difference to be more noise than signal. The gap between the two measures should narrow this month owing mostly to a deceleration in OER inflation.

Services inflation to remain a sticky problem

Though we look for OER inflation and, in turn, shelter inflation to moderate in February, core services inflation should remain sticky-high. Indeed, we forecast core services inflation of 0.5% m/m, well above its pre-pandemic run-rates. Core goods prices, on the other hand, should continue to fall owing in large part to declines in auto prices. While this composition of inflation is not ideal in the eyes of the Fed, it would be a step in the right direction after the January report.

Implications for monetary policy

Overall, a report in line with our expectations would keep the Fed on track to begin cutting rates at its June meeting. Alternatively, if core CPI prints above our expectations, it would increase the likelihood of a later start to the cutting cycle. This is also the last CPI report before the Fed's March meeting, when it publishes new economic projections. A stronger than expected report could lead certain participants to revise their outlook for monetary policy.

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NSA = Not Seasonally Adjusted

Exhibit 1: CPI detailed forecast table

Below is our detailed CPI forecast for February

	% m/m		% y/y		3-month % ch. annualized	
	February Forecast	Previous month	February Forecast	Previous month	February Forecast	Previous month
Headline NSA Index (level)	310.312	308.417				
Core NSA Index (level)	315.245	313.623				
Headline CPI (All Items)	0.42%	0.31%	3.1%	3.1%	3.9%	2.8%
Food	0.2%	0.4%				
Energy	2.2%	-0.9%				
Core CPI	0.31%	0.39%	3.7%	3.9%	4.0%	4.0%
Core goods	-0.20%	-0.32%	-0.6%	-0.3%	-2.3%	-2.4%
Household furnishings and supplies	-0.1%	-0.1%				
Apparel	0.0%	-0.7%				
Transportation commodities less motor fuel	-0.4%	-1.1%				
<i>Of which:</i>						
New vehicles	-0.2%	0.0%				
Used cars and trucks	-0.8%	-3.4%				
Medical care commodities	-0.1%	-0.6%				
Recreation commodities	-0.1%	0.8%				
Other recreational goods	-0.6%	-0.8%				
Education and communication commodities	-0.5%	0.6%				
Alcoholic beverages	0.1%	0.3%				
Other goods	-0.1%	0.3%				
Core Services	0.46%	0.66%	5.2%	5.4%	6.2%	6.2%
Shelter	0.5%	0.6%				
<i>Of which:</i>						
Rent	0.4%	0.4%				
Lodging away from home	1.0%	1.8%				
OER	0.4%	0.6%				
Water and sewer	0.5%	1.1%				
Medical care services	0.44%	0.7%				
<i>Of which:</i>						
Health insurance	1.2%	1.4%				
Transportation services	0.8%	1.0%				
<i>Of which:</i>						
Airfares	2.0%	1.4%				
Recreation services	0.3%	0.4%				
Education and communication	0.3%	0.4%				
Other personal services	0.3%	1.0%				
Additional aggregate (Calculated by BofA Global Research)						
Core services ex rent and OER	0.5%	0.8%	4.4%	4.4%	7.0%	6.7%

Source: BofA Global Research, Bureau of Labor Statistics, Haver Analytics

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