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ECONOMIC DATA

U.S. Consumer Prices Rose 0.5% in January, Up 2.1% On Year

Overall inflationary pressures are intensifying

Shoppers browsing at Whole Foods' 365 in the Fort Greene neighborhood of Brooklyn in New York on Jan. 31. PHOTO: RICHARD B. LEVINE/ZUMA PRESS

By Harriet Torry and Ben Leubsdorf

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WASHINGTON—U.S. consumer prices rose more than expected in January, a further sign inflation is firming after a long run of softness.

The consumer-price index, which measures what Americans pay for everything from salad dressing to fares on public transportation, rose 0.5% in January after rising a seasonally adjusted 0.2% in December, the Labor Department said Wednesday.

Excluding the volatile food and energy categories, so-called core prices rose 0.3%, compared to 0.2% in December.

Economists surveyed by The Wall Street Journal expected consumer prices to rise 0.4% in January, and core prices to rise 0.2%.

In the 12 months to January, overall prices rose 2.1%, matching the same annual increase as in December. Core prices were up 1.8% on the year. Economists had expected a 1.9% increase in overall inflation and core prices to rise 1.7%.

The increase in inflation last month was largely driven by higher prices for gasoline, shelter costs like rent, medical care, food and apparel.

Wednesday's report showed wage inflation was broadly muted. Real average weekly earnings fell a seasonally adjusted 0.8% in January and were up 0.4% from January 2017.

The report showed overall inflationary pressures are intensifying, and it comes five weeks before Federal Reserve officials' next scheduled policy meeting in Washington on March 20-21.

Central bank officials have been monitoring the inflation picture closely, looking for signs that a tightening labor market and continued economic growth are generating stronger wage and price increases after years of weak inflation.

The reading will likely come under close scrutiny from market participants, after a separate Labor Department report earlier this month signaling rising U.S. wages spooked global markets.

The S&P 500 and the Dow remain on pace for their worst month since August 2015—despite gains in the last three sessions—while the Nasdaq faces its biggest monthly decline since January 2016. The indexes are off about 7% from their Jan. 26 highs.

“Given the recent roller coaster ride in equities was sparked in good part by inflation fears accelerating rate hikes, the latest inflation data will be seen as increasingly important and telling, to date,” Lindsey M. Piegza, chief economist at Stifel Economics, said in a note to clients ahead of the CPI release.

The data come as central-bank officials mull whether to next raise short-term interest rates from their current range between 1.25% and 1.5% at their coming March meeting. Fed policy makers in December penciled in three rate increases this year.

Wednesday’s report showed an index of energy prices rose 3.0% in January from the prior month, led by a seasonally adjusted 5.7% rise in gasoline costs. The price index for transportation services rose 0.8%. Apparel prices reversed three prior months of declines, rising 1.7% on the month.

The Labor Department announced some methodology changes ahead of Wednesday’s release, tweaking the way it measures prices for smartphones and used cars and trucks. The agency also revised seasonal adjustments in data going back five years.

Taking the seasonal-adjustment changes into account, the consumer-price index data “look a little softer over the most recent few months,” JPMorgan Chase economist Daniel Silver said in a note to clients last week, adding however that “the broader narrative on core inflation is unchanged following the recent revision to the CPI data.”

Economist Stephen Stanley of Amherst Pierpoint Securities cautioned ahead of the release that there was “a lot of statistical noise surrounding this set of figures.”

“Yes, inflation is likely to accelerate in 2018, and, yes, this would be one of the key developments for the economy and particularly for the Fed, but surprises on inflation tend to be measured in basis points most of the time, and the inflation story is probably going to play out quite slowly,” he said in a note to clients Tuesday.

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