U.S. Data Review

- CPI: latest contained advance in line with market expectations, although recent spike in energy prices suggests renewed (but likely transient) pressure in coming months

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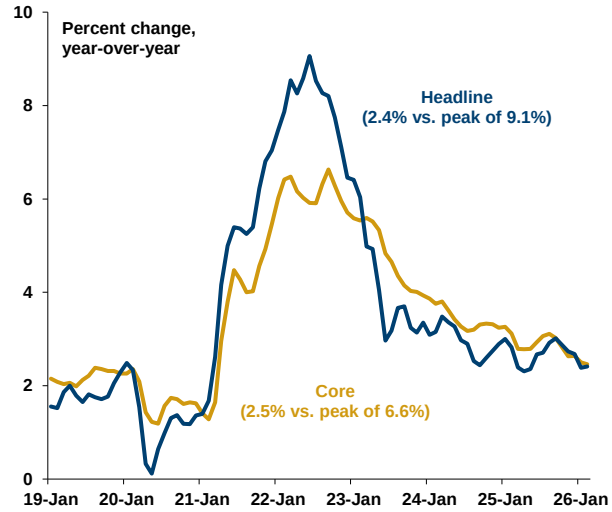
February CPI

- The headline CPI rose 0.3 percent in February, matching the Bloomberg survey median expectation, as did the advance of 0.2 percent in the core index. The monthly changes equated to year-over-year advances of 2.4 percent for the headline measure (+2.414 percent, with less rounding, in February versus +2.386 percent in the prior month) and 2.5 percent in the core index (+2.457 percent, down slightly from +2.504 percent in January and the slowest year-over-year increase since March 2021; chart, below left). With that said, we view the data in hand as translating to a somewhat faster advance in the price index for personal consumption expenditures, the FOMC's preferred inflation gauge, in February. Moreover, the latest flare in the Middle East has exerted significant pressure on energy prices, which raises the possibility of a jump in the headline CPI next month.

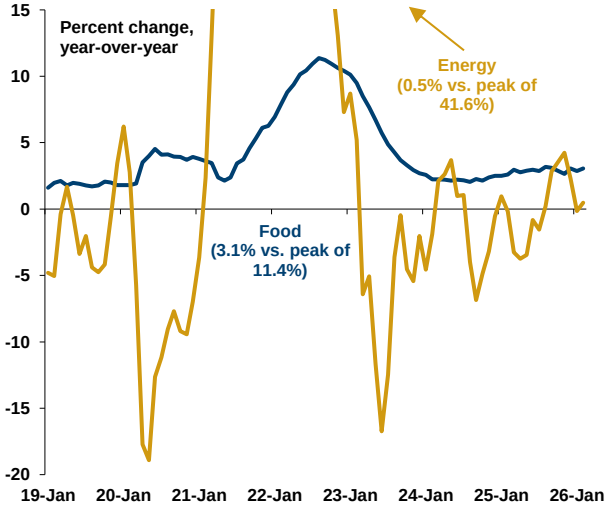
- Putting aside concerns about the March report, the energy component rose 0.6 percent in February (+0.5 percent year-over-year; chart, below right), with the costs of energy commodities rising 1.1 percent (-5.2 percent year-over-year) and those for energy services rounding up to +0.2 percent for the second consecutive month (+6.3 percent year-over-year). The food category also advanced in the latest month, with the increase of 0.4 percent translating to a year-over-year gain 3.1 percent (up from +2.9 percent in January). Costs of food at home just rounded down to an increase of 0.4 percent (+2.4 percent year-over-year versus +2.1 percent in January), with a jump in the prices of fresh fruits and vegetables a key driver of higher prices in the latest month. Costs of food away from home increased 0.3 percent (+3.9 percent year-over-year, down from +4.0 percent in the prior month). Changes in food prices in the aggregate are above pre-pandemic trends, but they have none-the-less moderated sharply from the period of acute pressure earlier in the expansion (chart, below right).

CPI: Headline & Core*



** Peak readings indicate highs for the current economic expansion.*
Source: Bureau of Labor Statistics via Haver Analytics

CPI: Food & Energy

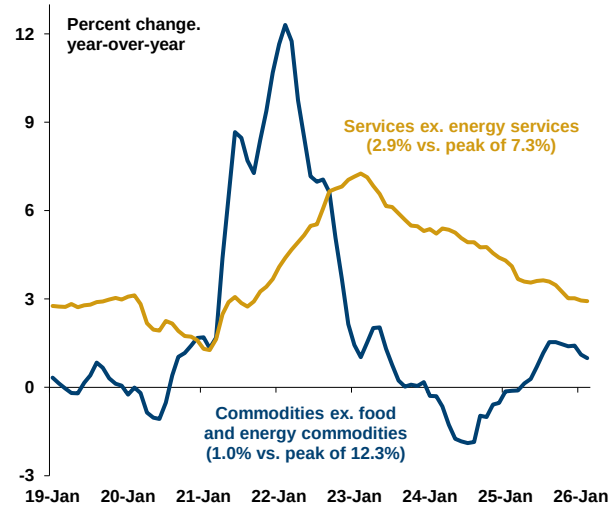


Source: Bureau of Labor Statistics via Haver Analytics

- The core index advanced 0.216 percent month-to-month, down from +0.295 percent in January. The index for commodities excluding food and energy commodities rounded up to +0.1 percent in February (+0.081 percent) after rounding down to no change in January, with the year-over-year advance slowing by 0.1 percentage point in February to +1.0 percent. Pockets of pressure tied to tariffs were still present, with apparel prices (for example) jumping 1.3 percent, but other areas showed muted price changes (e.g., prices of new vehicles rounded down to no change, and those for used cars and trucks dipped 0.4 percent). On the service side, the latest change of +0.268 percent marked a notable slowing from +0.388 percent in January, with the year-over-year advance slowing marginally from that in the prior month and in line with pre-pandemic trends (+2.924 percent versus +2.947 percent in the prior month; chart, below left). Some areas recorded brisk advances, with an increase in the medical care services of 0.6 percent (+4.1 percent year-over-year, up from +3.9 percent in January) also pointing to a firm reading in the core PCE index. Contrastingly, primary shelter components were again well behaved. The rent of primary residence and owners' equivalent rent of residences components recorded increases of 0.1 percent and 0.2 percent, respectively, with the year-over-year gains of 2.7 percent and 3.2 percent either below or aligned with the pre-pandemic trends (chart, below, right).

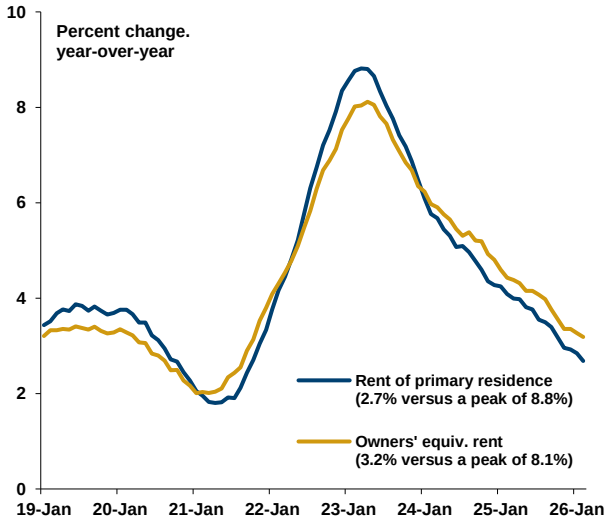
- All told, we view near-term risks to inflation as elevated on account of heightened geopolitical tensions, and we suspect that components that feed through from the CPI to the PCE price index point to some stickiness in that measure; on the point, we anticipate advances of 0.2 percent in the headline index and 0.3 percent in the core for January (released this Friday), followed by increases of both 0.3 percent in the headline and core in February (rounding down to those changes) based on today's CPI. With that said, we still anticipate that underlying inflation is decelerating – which alongside ongoing cooling in the labor market -- will pave the way for renewed easing in monetary policy later this year (current house view of reductions of 25 basis points in the target range for the federal funds rate at the June and September FOMC meetings; year-end 2026 midpoint of 3.125 percent).

CPI: Core Goods & Core Services



Source: Bureau of Labor Statistics via Haver Analytics

CPI: Housing



Source: Bureau of Labor Statistics via Haver Analytics