



# **December US CPI inflation increased to 2.9% YoY while Core CPI slowed to 3.2% YoY**

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The December US CPI report showed overall inflation expanding by 2.9% YoY from 2.7% in November, while Core inflation (ex. food and energy) slowed to 3.2% YoY from 3.3% YoY, slightly below analyst estimates of 3.3%. On a month-on-month basis, overall inflation picked up to 0.4% in December vs 0.3% in November. Core inflation however, was up just 0.2% MoM vs 0.3% MoM in November and below analyst estimates of 0.3%.

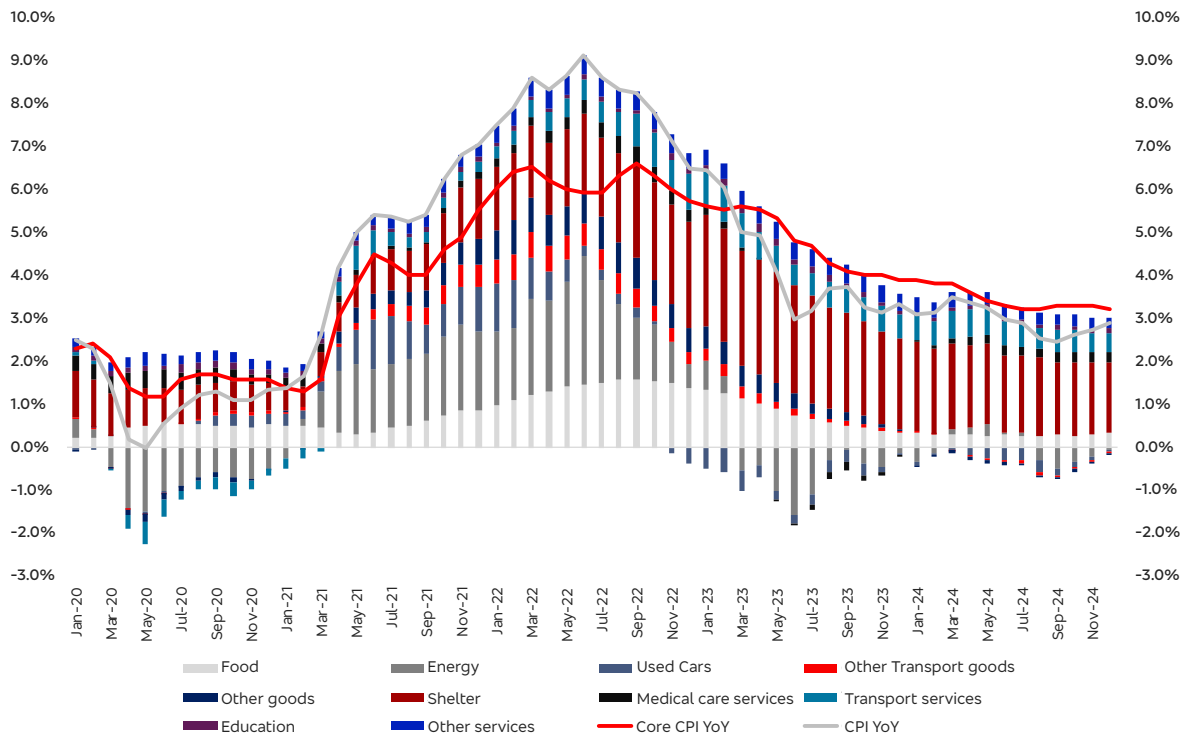
Though a welcome slowdown, the level remains higher than what the Fed would like and this combined with a strong jobs report means the Fed is not likely to lower rates in their January 29th meeting. In addition, Trump will take office on January 20th, and as he did on his previous first day in office, he will likely sign through executive order, some of his policies. And in the coming weeks he will indicate the policy priorities for Congress. Much of these policies are likely to be inflationary and could impact the Fed's outlook for further rate cuts over the coming year. The Fed already reduced expectations for rate cuts for 2025 at their December meeting to 0.50% in rate cuts versus 1.0% in rate cuts previously and Trump's inauguration risks further adjustments to their outlook. As a base case, we believe the Fed will cut 2 more times in 2025, by 0.25% in March and June. We then expect the Fed to pause its rate cutting cycle as it considers if inflation is continuing towards the 2% target given any policy changes by the new administration.

### Some details on the CPI report:

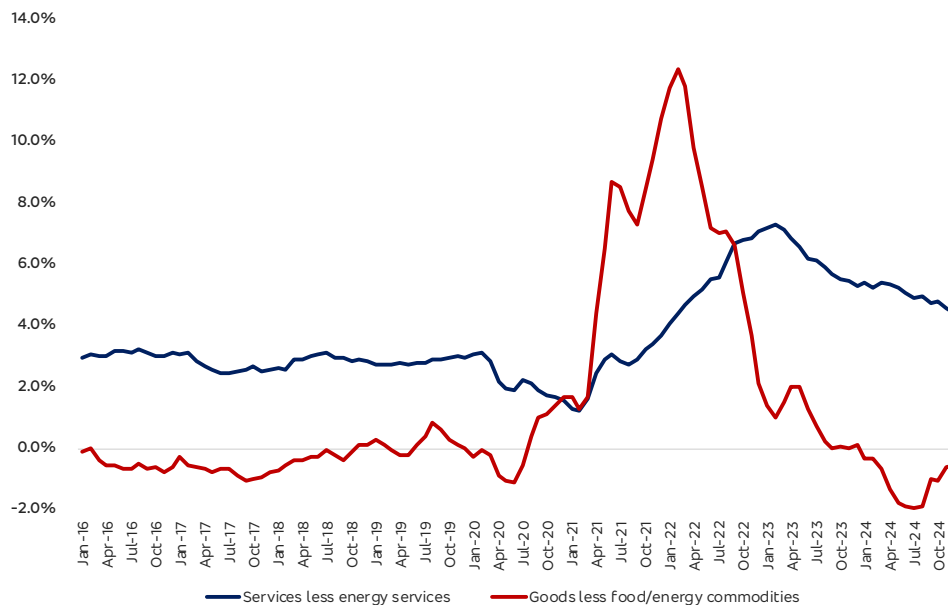
- Headline inflation was 2.9% YoY, rising from 2.7% the previous month. Core inflation slowed to 3.2%. On a month-on-month basis, headline inflation was 0.4%, and Core was 0.2%.
- Food inflation was 2.5% YoY beating last month's reading of 2.4% and becoming the highest reading since January. The increase was driven by the Food At Home category where eggs rose sharply again by 36.8% YoY, likely due to the bird flu which has affected poultry in all 50 US states.
- Goods prices (ex food and energy) were -0.5% YoY as prices for many goods continue to decline from last year but at a slower pace than the past few months.
  - Transportation Commodities Less Motor Fuel, the largest category within Core Goods, appears to have bottomed out on yearly basis on July 2024, while it remains in deflation, the pace is slowing and could soon be positive, putting upward pressure on Core Goods. This is mainly due to developments in auto prices. While Used Car prices fell 3.3% YoY in December, they were up 1.2% on a month-on-month basis. Used Car prices were down 10.9% YoY in July but the declines have moderated as prices seem to have stabilized and may even be rising now from the low levels of the past year.
  - On a monthly basis, Core Goods were up just 0.05%, however, most of the categories in this bucket appear to have bottomed as well, meaning that over the next few months, the cushion provided by the bucket may disappear and push prices higher.

- Services (ex. Energy services) remain elevated though the pace slowed this month to 4.4% from 4.6%. Shelter inflation was 4.6% YoY down from 4.7%. Owner's Equivalent Rent (OER) was up 4.8% down from 4.9% while Rent of Primary Residence increased 4.2% down from 4.4%. Lodging Away From Home increased by 2.6% down from 3.7%.
- Core Services ex Shelter moderated to 4.2% YoY, the lowest level for a year while on a month-on-month annualized basis it is at 3.4%. While these levels are heading in the right direction, the progress continues to be slow.

### Inflation rises to 2.9% YoY while Core inflation slows to 3.2%



### Goods prices in deflation, but Services inflation still high at 4.4% YoY



Source: Bloomberg/Bradesco

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