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Economic Research

Economic Briefing

US core inflation turns down again

US consumer prices rose sharply in December, by 0.4% from the previous month. However, excluding the volatile prices of energy and food, the so-called core rate was only a moderate 0.2%. The core rate has therefore probably resumed its downward trend. The Federal Reserve is likely to cut its interest rates further as a result, but probably at a much slower pace than before.

The data...

US consumer prices increased by 0.4% in December from the previous month. The year-on-year rate rose from 2.7% to 2.9%. The more important core rate, which excludes the volatile prices of energy and food, was 0.2% month-on-month. This was less than the consensus forecast (0.3%), but in line with our forecast. The year-on-year rate fell from 3.3% to 3.2%.

... and the background

At first glance, the report on US consumer prices in December was disappointing. After all, the monthly increase of 0.4% is the strongest since February 2024. However, this was mainly due to higher prices for gasoline (+4.4%) and gas (+2.4%). But as an indicator of the trend, the core rate excluding energy and food is more important, also in the opinion of the Federal Reserve. This was much more moderate at 0.2% and was the lowest since July.

Thus, the medium-term picture looks better than it did last month, when the core rate was 0.3% for the fourth time in a row. We had already pointed out at the time that the decline in the core rate was not linear in the past, but that there were several phases in which the decline stalled (Chart 1). However, these phases were only temporary and the year-on-year rate resumed its downtrend. Today's data point in this direction, even if inflationary pressure is still too high.

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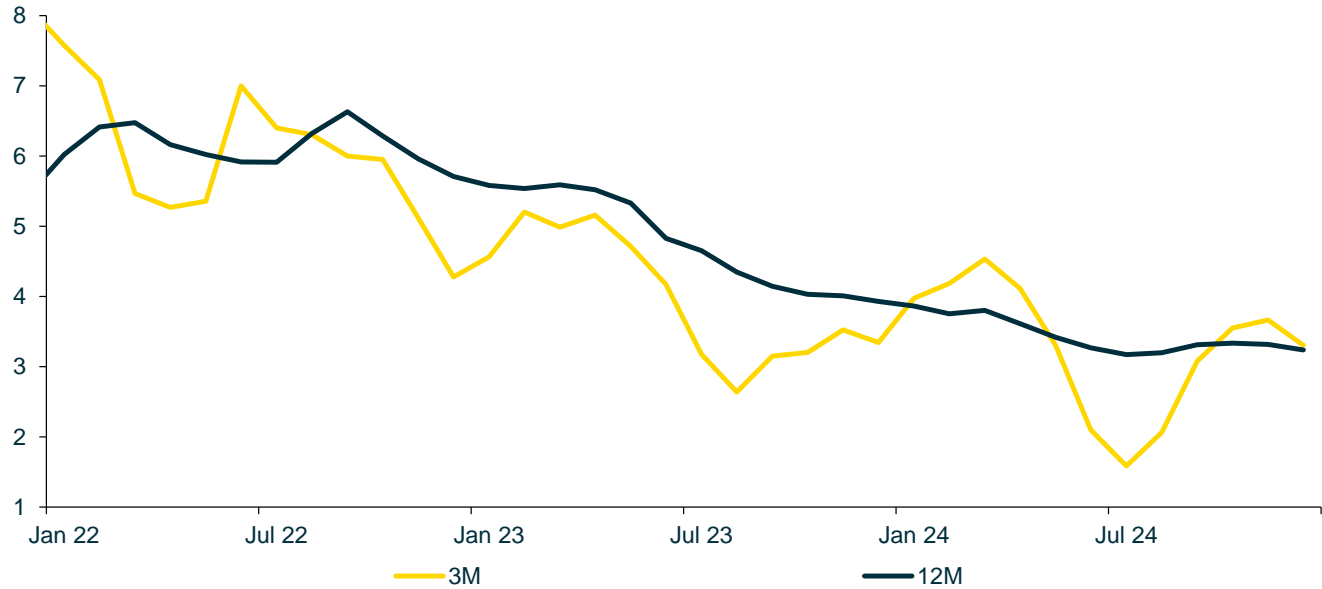
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Chart 1 - Core inflation resumes downtrend

consumer price index excluding food and energy, 3- and 12-month changes, annual rate in %



Source: S&P Global, Commerzbank Research

Fed can stay on the sidelines for the time being

The decline in headline inflation remains sluggish, and core inflation is easing very gradually. The Fed still might cut rates further, but there is no immediate pressure to act. Market participants have been abandoning expectations of a rate cut at the January 28-29 meeting for some time. Moreover, the measures of the incoming Trump administration – Donald Trump takes office on Monday – cannot yet be reliably foreseen. This makes it difficult to assess their effect on growth and inflation; the Fed thus lacks important information to feed into its economic models. While this does not mean that further rate cuts are completely off the table, the Fed will proceed more slowly.



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