

US inflation rises, tempering Fed's case for rate cuts

REUTERS
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US consumer prices increased more than expected in December as rents maintained their upward trend, which could delay a much anticipated interest rate cut in March from the Federal Reserve.

The consumer price index (CPI) rose 0.3 per cent last month after nudging up 0.1 per cent in November, the Labor Department's Bureau of Labor Statistics said on Thursday. The cost of shelter accounted for the more than half of the increase in the CPI.

In the 12 months through December, the CPI rose 3.4 per cent after increasing 3.1 per cent in November. Economists polled by *Reuters* had forecast the CPI gaining 0.2 per cent on the month and climbing 3.2 per cent on a year-on-year basis.

Since slowing to an annual increase of 3.0 per cent last June, further progress towards lower consumer inflation has been limited by persistently high rents. The annual increase in consumer prices has cooled from a peak of 9.1 per cent in June 2022.

The report followed news last Friday that the economy added 216,000 jobs in November, with

annual wage growth picking up.

Excluding the volatile food and energy components, the CPI rose 0.3 per cent last month after increasing 0.3 per cent in November. The so-called core CPI advanced 3.9 per cent on a year-on-year basis in December after rising 4.0 per cent in November.

Though consumer prices remain elevated, measures tracked by the US central bank for its 2 per cent inflation target improved significantly through much of 2023, with the personal consumption expenditures (PCE) price index posting its first monthly decline in more than 3-1/2 years in November.

Rents, which account for a larger share of the CPI basket, have a smaller weighting in the PCE price index, which will be published later this month.

Early on Thursday, financial markets saw a roughly 69 per cent chance of a rate cut at the Fed's March 19-20 policy meeting, according to CME Group's FedWatch Tool. The Fed has hiked its policy rate by 525 basis points to the current 5.25 per cent-5.50 per cent range since March 2022.

With the resilient labor market keeping wage growth elevated, some economists expect a rate cut in May or June.

US CPI Y-o-Y (%)

