The Daily Dish

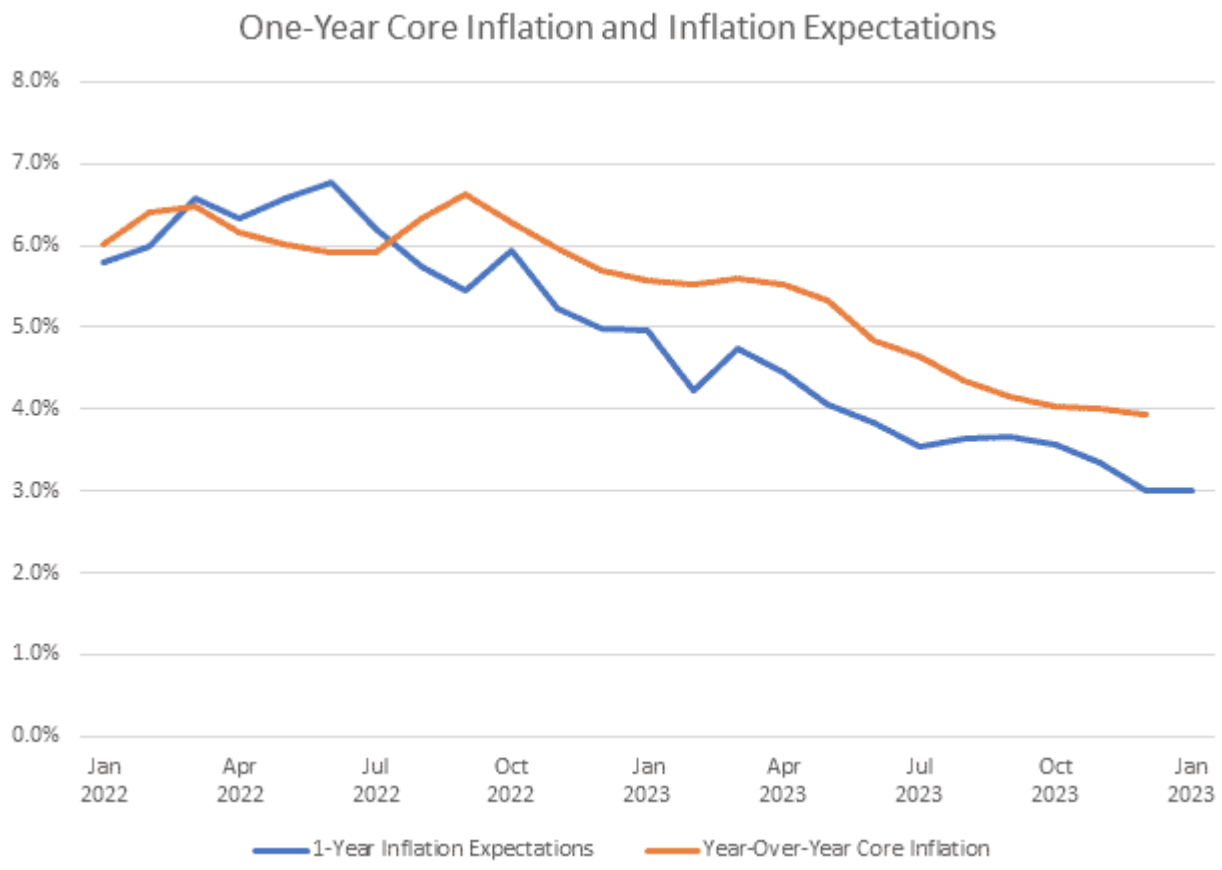
January Consumer Price Index

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The Bureau of Labor Statistics (BLS) will release the January edition of the Consumer Price Index (CPI) at 8:30 this morning. What's the status of the fight against inflation?

Recall that the Fed's goal has two prongs: return inflation to the Fed's 2-percent target and have inflation expectations be well-anchored; i.e., have people expect inflation to be at the target. The chart (below) reviews the progress on both fronts.

Begin with inflation, in this case measured by the year-over-year rise in non-food, non-energy consumer prices ("core" inflation). As the chart indicates, core inflation peaked at 6.6 percent in September 2022. One year later, the restrictive monetary policies of the Fed (with a big boost from productivity growth) had brought inflation to 4.1 percent. Since then, progress has been much slower as core inflation registered 3.9 percent in December. One can expect a further, modest drop in the data released today.



What has happened on the inflation expectations front? One-year inflation expectations peaked at 6.8 percent in June 2022 and one year later fell to 3.5 percent. Since then, progress has slowed considerably, as expectations reached 3.0 percent in December and remained there in January.

How does this inform the debate over the future of Fed policy? While actual core inflation remains well above the target when measured on a year-over-year basis, over the past six months (and shorter) periods, the target has been met. This fact has prompted some to argue that the battle is over, and the Fed should cut rates posthaste. But the inflation expectations data argue to the contrary. Instead, they suggest that the Fed remain restrictive for an additional period as the 2-percent threshold is met, thereby cementing this expectation with consumers.

When the CPI is released at 8:30, expect a modest pace of inflation and additional progress toward the target. But keep in mind that inflation expectations remain stalled at 3 percent and additional progress needs to be made on that front as well.