

CPI Inflation Accelerated to 3.0% for January 2025, Outpacing PNC's Expectations

- **Topline CPI rose by 0.5% in January 2025 in seasonally-adjusted terms, accelerating for a fourth straight month**
- **Core CPI, less Food & Energy, leapt to 0.45% in January 2025, above expectations and reversing some recent cooling in this metric**
- **Housing rose modestly to a 4.1% annualized pace, but is now up only 3.8% versus one year ago**
- **Energy CPI rose for a third straight month in January 2025 and is now up versus one year ago for the first time since July 2024**

The topline Consumer Price Index (CPI) inflation came at +0.5% for January 2025, riding higher energy prices and a bounce in Food & Beverages prices. Core CPI inflation, which mirrors the metric that the Federal Reserve targets in its monetary policy impact goals (the Core Personal Consumption Expenditures Deflator), rose by 0.4% for the month reversing a recent modest downtrend in the monthly growth pace, though year-over-year gains have been pinned near 3.3% since mid-2024.

The +0.4% Core CPI gain in January 2025, which excludes volatile food and energy inputs, undermines the hope that December's weaker inflation result flashed. Price growth was spread across key consumer categories even leaving out the critical Food & Beverages and Energy components that the Core metric excludes. Recreation spending among consumers saw a 1.0% gain just for the month in January, pushing its year-over-year pace to 1.6% - the strongest growth seen in this category since March 2024. Wage gains continue to outpace overall inflation in the U.S. economy, which appears to be feeding discretionary spending. The Bureau of Economic Analysis reports that the Savings Rate among U.S. households fell to 3.8%, dipping below the 4.0% threshold for the first time since late 2022. This is yet another indication that consumers are in spending mood, and that demand-side inflation pressure will likely continue to influence price trends through at least the first half of 2025.

Energy CPI gained another 1.1% in January 2025 and is now riding a three-month uptrend. Gasoline prices were up less dramatically than was the case in December, but still grew by 1.8% for the month. Gasoline prices are now only 0.2% below year-ago levels according to their CPI metric. Oil prices did back down from the jump seen in the first few weeks of the new year, so the gains in Energy and Gasoline CPI could be reaching their zenith. Still, higher prices for these critical household expenditures will provide some degree of counterweight to the clear lean toward spending that consumers have re-embraced.

Gus Faucher
Chief Economist

Jay Hawkins
Senior Economist

Stuart Hoffman
Senior Economic Advisor

Kurt Rankin
Senior Economist

Ershang Liang
Economist

PNC is calling for two (2) 25 basis point rate cuts from the Fed in 2025 – a scaled back pace of easing that is looking more and more justified as monthly inflation data and related economic indicators have rolled in recently. The economic numbers themselves do not indicate fundamental weaknesses in the U.S. economy or even growing imbalances, just lack of progress toward policy goals that will in turn keep interest rates from normalizing as quickly as had been hoped for through much of 2024.

PNC Economics

Kurt Rankin, Senior Economist

economics@pnc.com

Visit pnc.com/economicreports for more information from PNC Economics.