CPI Inflation Matches Expectations with a +0.3% Monthly Pace

Headlines

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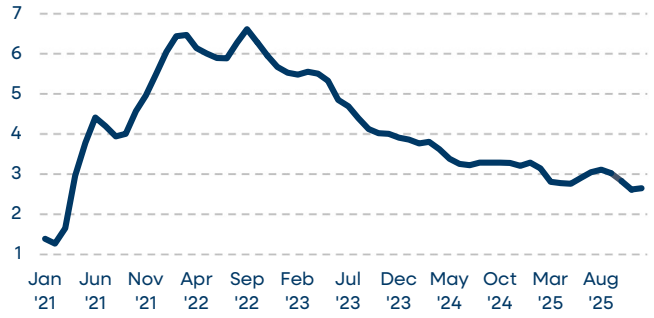
- **Topline CPI gained 2.7% in December 2025** versus one year ago.
- **Core CPI inflation** remained at 2.6%, its slowest annual pace since March 2021.
- **Housing CPI inflation accelerated to a 4.3%** annualized monthly rate.
- **Food prices saw their strongest monthly gain since August 2022**, rising by 0.7% for the month in December 2025.
- **Energy CPI inflation closed 2025 weaker** at a 2.0% year-over-year after jumping to 4.1% in November.
- **Inflation in the Services Less Shelter category accelerated** to a 2.8% annualized monthly rate in December 2025.

Details

The Consumer Price Index (CPI) came in at PNC's expectations with a 0.3% monthly gain in December 2025. December's result translates to a +2.7% year-over-year pace, the second consecutive month at this result. Core CPI inflation, which excludes volatile food and energy prices, also matched the prior month's pace at a 2.6% year-over-year gain. After some debated methodological choices regarding the November 2025 Housing inflation number, December saw this largest component of CPI inflation accelerate in December to a 4.3% annualized monthly pace—up from the 1.9% pace seen in September. Rounding out the household necessities story, Food prices posted their strongest gain in more than three years, while Energy price growth weakened significantly to close out the year.

Core CPI, which excludes volatile Food and Energy prices, gained 2.6% versus one year ago through December 2025 (see Figure 1). This is the weakest year-over-year pace of inflation for this metric since March 2021 (1.6%). Core CPI mirrors the Federal Reserve's preferred monetary policy-setting inflation gauge, the Core Personal Consumption Expenditures index. There remains considerable distance between the current Core CPI inflation trend and the Fed's target of 2% average inflation. But with consumer demand proving resilient and tariffs influencing producer costs, sustaining a sub-3% Core Inflation pace at least represents progress since year-end 2024.

Figure 1: Core CPI (y/y % chg)



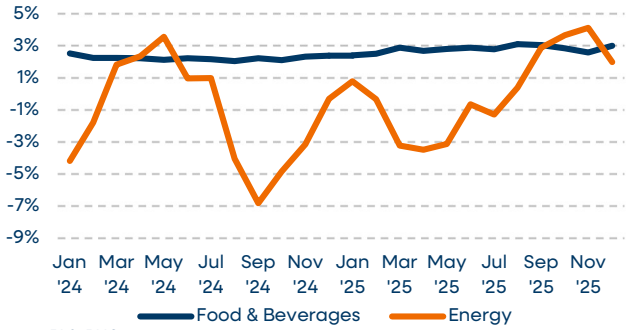
Source: BLS, PNC
*Unreported October 2025 data is linearly interpolated

Housing CPI re-accelerated in December 2025, posting a 4.3% annualized monthly growth rate after this largest contributor to CPI inflation had fallen to a 1.9% annualized pace in September, before data irregularities due to the Federal Government's shutdown interfered with data collection and timing. Versus one year ago, Housing CPI posted a 3.6% gain in December 2025. However, some interpolation attempting to accommodate the October 2025 data issues puts that annual gain at 4.0%, down more modestly versus year-end 2024 (4.1%). Housing CPI's trend will have to re-establish the slowing trend that seemed to be gaining traction in the second half of 2025 if Core CPI has any real chance of falling to the Fed's 2% average target.

Food CPI hit households hard to close out the year. The Food & Beverages CPI category bounced by 0.7% for the month in December, putting year-over-year prices up by 3.0%. Although the Food Away from Home sub-category continues to outpace Food at Home price growth at 4.1% versus 2.4%, respectively (year-over-year), the more fundamental Food at Home category finished 2025 up more than in the year prior, with December 2024's annual rise being only 1.7%. Accelerated price growth for staple items like Food & Beverages will likely continue to weight upon consumer sentiment, inching ever closer to the point of capitulation on spending, and therefore U.S. economic growth overall.

Energy CPI inflation decelerated in December 2025 to a 3.6% annualized monthly gain. Oil prices have hovered in the $60 per barrel range (West Texas Intermediate) in recent months, and December's Gasoline prices, according to the CPI report, helped overall Energy price gains to weaken by falling 0.5% for the month. Natural Gas saw an exponential price gain of 47% from September 30 ($3.12 per million BTU) through November 26 ($4.59). But Natural Gas prices also backed down through December, falling under $4.00 per million BTU as of December 15. Whereas Food prices hit household budgets hard to wrap up 2025, Energy prices are offering some relief entering the new year (see Figure 2).

Figure 2: Category Inflation (y/y % chg)



Source: BLS, PNC
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The argument made by some Federal Reserve officials against additional monetary policy easing has hinged upon concerns that U.S. inflation could re-ignite as a result of the U.S. government's more aggressive tariff policy. The December 2025 CPI report, matching November's result and down from the pre-shutdown September 2025 results, makes a case that the steadily deteriorating U.S. labor market warrants more attention versus those inflationary pressure fears. A decline in job growth to less than half of the pace seen in 2024—including several outright declines in Total Nonfarm Employment per the Bureau of Labor Statistics' data—brings this consideration into stark relief. PNC expects the Fed to hold the Fed Funds Rate at its current 3.50% to 3.75% range through the first half of 2026, with two cuts then on tap for the second half of the year.

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