

CPI Inflation Up 0.3% for December 2023; Core Steady, also Up 0.3% for the Month

- **Topline CPI grew at a 0.3% pace in December 2023 versus November in seasonally-adjusted terms**
- **Core CPI, less Food & Energy, maintained a 0.3% pace of gain in December 2023**
- **Energy prices increased 0.4% in December 2023, a turnaround from declines in October & November**
- **No month-over-month declines were posted across major CPI categories, suggesting broad pricing trends are coalescing around stability**

Consumer Price Index (CPI) inflation came in at +0.3% in December 2023 versus November. This translates to a 3.3% versus one year ago. Core CPI inflation maintained +0.3% growth in December, the fourth month out of the past five to see prices rise at that pace. The Fed's target of an average of 2.0% year-over-year inflation remains well off from December's +3.3% and 3.9% topline and core inflation results, respectively, implying that caution is warranted regarding expectations for early or aggressive Fed rate cuts in 2024.

Core CPI inflation's steady 0.3% monthly growth rate equates to an annualized pace of inflation that has remained close to 3.5% since mid-2023. This core measure, excluding volatile food and energy prices and akin to the Fed's preferred Personal Consumption Expenditure Deflator metric, continues to be supported by price growth in housing-related expenditures. Services price growth also clearly remains a stumbling block en route to the Fed's 2.0% inflation target, with Services less Rent of Shelter posting a 6.8% annualized monthly gain in December, down only modestly from November's 7.1% annualized pace.

December's report saw the Transportation jump to a 2.5% annualized pace of growth (+0.2% month-over-month), adding pressure to Core inflation. Although Gasoline prices were part of the overall inflation story for the month, having posted a turnaround from two consecutive monthly declines to a 2.1% annualized pace of growth in December – which did not influence the Core metric, both Used and New Vehicle prices were up for the month at 6.0% and 3.3%, respectively. And the gain in Used Vehicle prices represents an outlier after declines in the category for most of the second half of 2023.

Inflation in Recreation categories followed the holiday season's lead and bounced to a 5.4% annualized growth rate in December 2023. October and November had suggested that cooling prices for discretionary categories had potential to take hold, with a +1.3% and -2.6% annualized monthly change, respectively. With holiday shopping and the attendant leisure & hospitality spending that comes with it now past, Recreation CPI price trends in the early months of 2024 will be telling as to how much spending power and appetite households have in the face of higher debt loads.

The December 2023 CPI inflation results interrupted what had been three consecutive months of a downward trend in year-over-year topline CPI growth, falling from 3.7% in August to 3.1% in November before increasing modestly to December's 3.3% pace. While the December report is not encouraging, the results are also not cause for significant concern that progress on taming inflation is set to reverse course. Oil prices remain subdued – despite ongoing geopolitical risks – and producer prices show very little momentum regarding production cost pass-through. As was the case throughout 2023, inflation's trend entering 2024 will rely almost exclusively on consumer demand trends. If exhausted consumer savings and rapidly rising debt loads tamp down households' consumption, inflation will have a clear path toward the Fed's goal of a 2.0% average pace.

PNC Economics

economics@pnc.com

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