

CPI Inflation Accelerated in December 2024, Up 0.4% for the Month and 2.9% Year-over-Year

- **Topline CPI rose by 0.4% in December 2024 in seasonally-adjusted terms, accelerating for a third straight month**
- **Core CPI, less Food & Energy, rose 0.2% in December 2024, slightly below PNC's expectations**
- **Housing inflation eased modestly to a 3.7% annualized pace**
- **Energy CPI jumped sharply in December 2024, posting a 2.6% rise for the month**

The topline Consumer Price Index (CPI) inflation came at +0.4% for December 2024, riding higher energy prices to a third straight monthly acceleration in the growth measure. 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 0.2% for the month – its softest result since July 2024 (+0.17%). Transportation and Energy components were the primary culprits pushing December's topline index higher while Core inflation cooled somewhat.

The +0.2% Core CPI gain in December 2024, which excludes volatile food and energy inputs, represents the first significant progress back towards the Fed's 2% average target since the metric saw a reacceleration above a 3% pace in mid-2024. The volatile Transportation category rose by 1.4% for December 2024 versus the month prior, with prices for both New Cars and Used Vehicles showing monthly gains not seen consistently since early 2023. On a year-over-year basis, prices for both vehicle classes finished 2024 down by 0.4% and 3.4%, respectively. But that compares to year-over-year declines of approximately 1.0% and 10.0% in July of last year, demonstrating the run-up in prices endured through the second half of the year, bringing pressure to bear on balance sheets from this big ticket expense for households.

At a 2.6% month-over-month gain, Energy inflation posted its strongest single-month jump since August 2023 (+4.4%). After being down by 6.9% in September, Energy CPI finished the year down only 0.4%. Oil prices have spiked recently after spending much of 2024 around the \$70 per barrel mark (West Texas Intermediate). This jump will surely be felt by households in the months to come both at the gasoline pump as well as via passthrough of businesses' own costs for transportation and petroleum-based inputs for production.

Services CPI rebounded in December 2024, gaining 0.4% for the month and finishing 2024 4.1% above the year prior. Services price pressures have been supported by consumer demand over the past year, which has also fed ongoing wage growth in such industries. However, a note of concern is sounding on the supply side of the inflation equation, with manufacturers seeing goods production costs beginning to accelerate in the late stages of 2024, according to the Bureau of Labor Statistics' Producer Price Index data. With the U.S. economy's labor market holding strong and consumer confidence rising, the renewed combination of goods

and services price growth, supported by different aspects of the demand/supply relationship, is a worrisome sign regarding further progress toward the Fed's 2% average consumer price inflation target over the coming months.

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 numbers themselves do not indicate fundamental weaknesses in the U.S. economy or even growing imbalances. Rather, data such as stubborn inflation trends point to a lack of progress toward policy goals.

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