

Economic Indicator — February 13, 2026

January CPI: An Encouraging Start to the Year

Summary

The January CPI report came in slightly cooler than expectations. Core CPI rose 0.30% amid a big jump in airfares that was offset by softer-than-expected readings for used cars and primary shelter. Headline and core CPI inflation on a year-ago basis slipped to 2.4% and 2.5%, respectively, with the latter posting its lowest reading since March 2021. The implications for the PCE deflator were generally favorable, and we project a 0.26% increase in the core PCE deflator in January. Note that we still do not have the December data for the PCE deflator nor the January PPI data, so the error bands around these estimates are wider than usual. For the Fed, a March rate cut looks highly unlikely, but the continued gradual pace of disinflation should keep prospects for additional rate cuts alive for later in the year.

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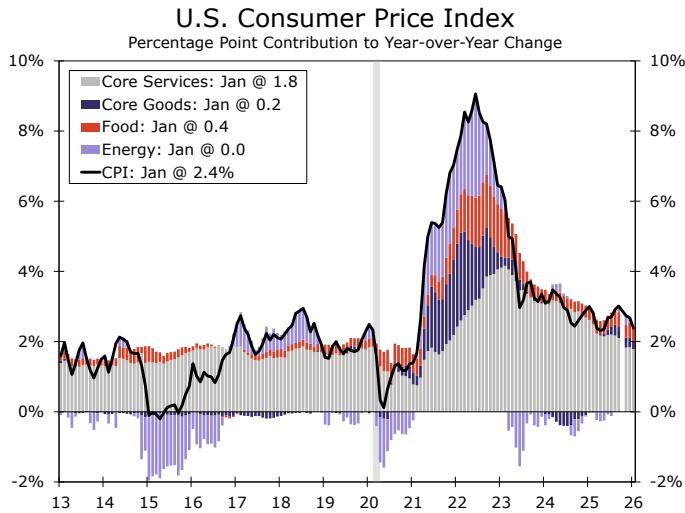
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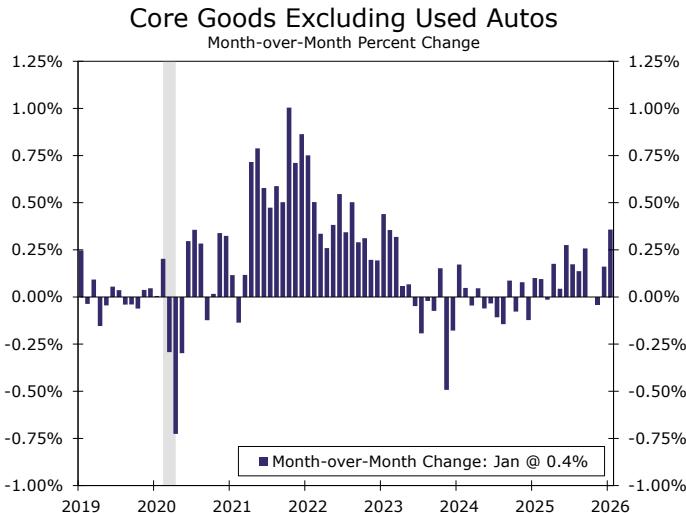
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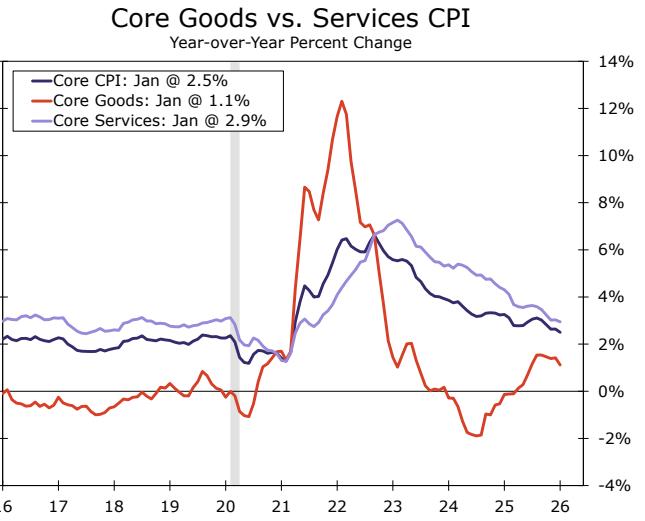
Source: U.S. Department of Labor and Wells Fargo Economics

A More Gentle Start to the Year

The Consumer Price Index came in a touch softer than expected in January, rising 0.2% (0.17% unrounded) over the month and 2.4% over the past year. A big drop in gasoline prices (-3.2%) helped to restrain headline inflation, while energy services rose 0.2%, a smaller increase than we had penciled in. Electricity prices were tame for the second month in a row, although they are still up 6.3% year-over-year, reflecting the continued demand growth in this sector. Utility gas prices were a much stronger 1.0% month-over-month and 9.8% year-over-year.



Source: U.S. Department of Labor and Wells Fargo Economics



Source: U.S. Department of Labor and Wells Fargo Economics

Excluding food and energy, core CPI rose 0.3% in January and was up 2.5% year-over-year, essentially in line with expectations. Core goods prices were roughly unchanged in the month, but this was largely attributable to a 1.8% decline in the volatile used auto category. Ex-used autos, core goods rose 0.36% in January, the strongest reading since February 2023 and a potential sign that tariff-induced inflation is still lingering in the data. One note of caution on the core goods front: the biggest beat came in the "other goods" category, specifically the "tobacco products other than cigarettes" component. Given the size of the move and that taxes can be a swing factor in tobacco products, this probably is not repeatable going forward.

Core services inflation was 0.4%, stronger than the 0.3% we anticipated, but here we found the details more encouraging despite the beat. Airfares rose 6.5% in the month, a sharp move particularly on the heels of the 3.8% gain seen in December. Like used autos, we doubt this will be repeated in the coming months. The disinflation in primary shelter seems to be continuing nicely, with rents and owners' equivalent rents both rising 0.2%.

On balance, we found today's report to be encouraging. Yes, a 0.30% monthly increase in core CPI is an annual run rate well north of the Fed's 2% inflation target, so victory over inflation is not yet upon us. That said, there are reasons to be optimistic about the outlook. The disinflation in primary shelter is continuing along, and there are few signs of an acceleration in the private sector rent measures that serve as forward-looking indicators. Tariff-induced price hikes probably have not fully worked their way through the data, but we are closer to the end than the beginning of this source of higher prices. Labor cost pressures appear muted based on this week's [Employment Cost Index](#), and this bodes well for the underlying run rate in core services inflation. For the Fed, a March rate cut looks highly unlikely, but the continued gradual pace of disinflation should keep prospects for additional rate cuts alive for later in the year.

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