

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.

Economist(s)

Tom Porcelli

Chief Economist | Wells Fargo Economics
Tom.Porcelli@wellsfargo.com | 212-214-6422

Sarah House

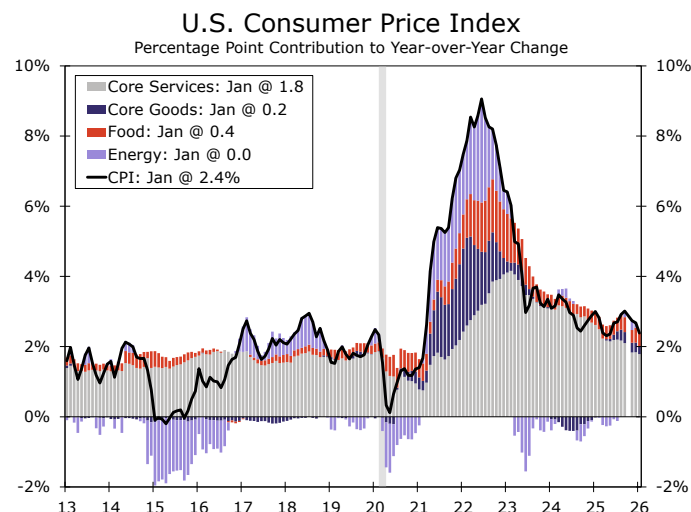
Senior Economist | Wells Fargo Economics
Sarah.House@wellsfargo.com | 704-410-3282

Michael Pugliese

Senior Economist | Wells Fargo Economics
Michael.D.Pugliese@wellsfargo.com | 212-214-5058

Nicole Cervi

Economist | Wells Fargo Economics
Nicole.Cervi@wellsfargo.com | 704-410-3059

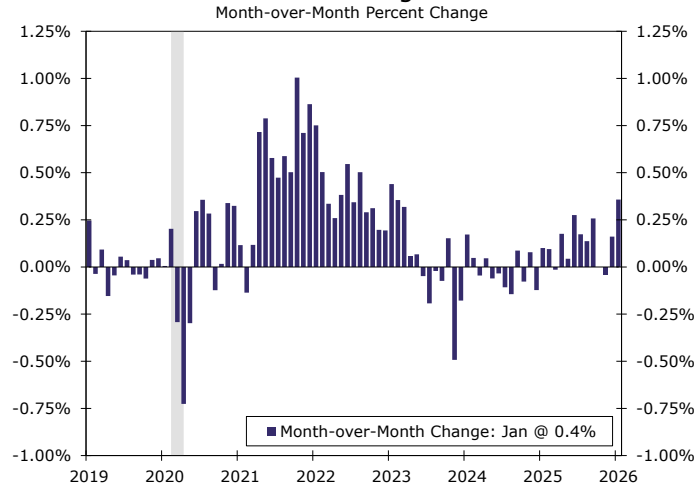


Source: U.S. Department of Labor and Wells Fargo Economics

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.

Core Goods Excluding Used Autos



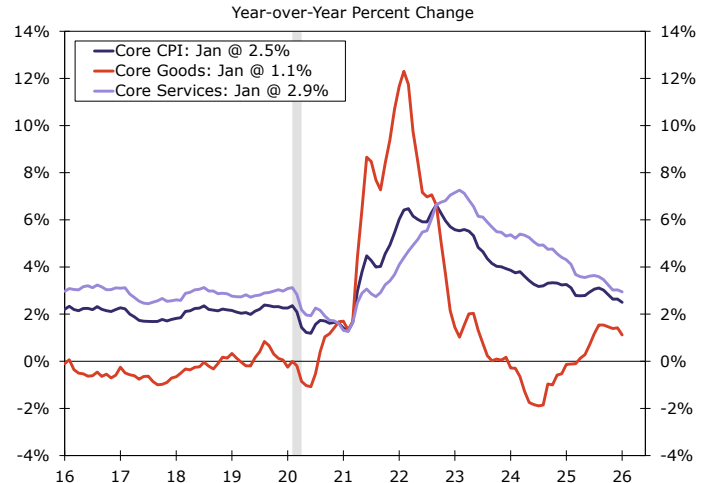
Source: U.S. Department of Labor and Wells Fargo Economics

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.

Core Goods vs. Services CPI



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

Economics Group

Tom Porcelli	Chief Economist	212-214-6422	Tom.Porcelli@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Grein	Economist	704-410-0369	Shannon.Grein@wellsfargo.com
Nicole Cervi	Economist	704-410-3059	Nicole.Cervi@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Ali Hajibeigi	Economic Analyst	212-214-8253	Ali.Hajibeigi@wellsfargo.com
Azhin Abdulkarim	Economic Analyst	212-214-5154	Azhin.Abdulkarim@wellsfargo.com
Anagha Sridharan	Economic Analyst	704-410-6212	Anagha.Sridharan@wellsfargo.com
Andrew Thompson	Economic Analyst	704-410-2911	Andrew.L.Thompson@wellsfargo.com

Required Disclosures

This report is produced by the Economics Group of Wells Fargo Bank, N.A. ("WFBNA"). This report is not a product of Wells Fargo Global Research and the information contained in this report is not financial research. WFBNA distributes this report directly and through affiliates including, but not limited to, Wells Fargo Securities, LLC, Wells Fargo & Company, Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., and Wells Fargo Securities Canada, Ltd. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. WFBNA is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report. All reports published by the Economics Group are disseminated and available to all clients simultaneously through electronic publication to our public website. Clients may also receive our reports via third party vendors. We are not responsible for the redistribution of our reports by third-party aggregators. Any external website links included in this report are not maintained, controlled or operated by WFBNA. WFBNA does not provide the products and services on these websites and the views expressed on these websites do not necessarily represent those of WFBNA.

This publication has been prepared for informational purposes only and is not intended as a recommendation, offer or solicitation with respect to the purchase or sale of any security or other financial product, nor does it constitute professional advice. The information in this report has been obtained or derived from sources believed by WFBNA to be reliable, but has not been independently verified by WFBNA, may not be current, and WFBNA has no obligation to provide any updates or changes. All price references and market forecasts are as of the date of the report or such earlier date as may be indicated for a particular price or forecast. The views and opinions expressed in this report are those of its named author(s) or, where no author is indicated, the Economics Group; such views and opinions are not necessarily those of WFBNA and may differ from the views and opinions of other departments or divisions of WFBNA and its affiliates. WFBNA is not providing any financial, economic, legal, accounting, or tax advice or recommendations in this report. Neither WFBNA nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this report, and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. WFBNA is a separate legal entity and distinct from affiliated banks, and is a wholly-owned subsidiary of Wells Fargo & Company.

You are permitted to store, display, analyze, modify, reformat, copy, duplicate and reproduce this report and the information contained within it for your own use and for no other purpose. Without the prior written consent of WFBNA, no part of this report may be copied, duplicated or reproduced in any form by any other means. In addition, this report and its contents may not be redistributed or transmitted to any other party in whole or in part, directly or indirectly, including by means of any AI Technologies (defined below) through which this report or any portion thereof may be accessible by any third-party. "AI Technologies" means any deep learning, machine learning, and other artificial intelligence technologies, including without limitation any and all (a) proprietary algorithms, software, or systems that make use of or employ neural networks, statistical learning algorithms (such as linear and logistic regression, support vector machines, random forests or k-means clustering) or reinforcement learning, or curated data sets accessible by any of the foregoing or (b) proprietary embodied artificial intelligence and related hardware or equipment. In addition, certain text, images, graphics, screenshots and audio or video clips included in this report are protected by copyright law and owned by WFBNA, its affiliates or one or more third parties (collectively, "Protected Content"). Protected Content is made available to clients by Wells Fargo under license or otherwise in accordance with applicable law. Any use or publication of Protected Content included in this report for purposes other than fair use requires permission from WFBNA or, in the case of content attributed to any third party, the third-party copyright owner. You may not alter, obscure, or remove any copyright, trademark or any other notices attached to or contained within this report. All rights not expressly granted herein are reserved by WFBNA or the third-party providers from whom WFBNA has obtained the applicable information. © 2026 Wells Fargo Bank, N.A.

Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority ("FCA"). For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 (the "Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Act for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EFTA, this report is distributed by WFSIL. For recipients in the EU, it is distributed by Wells Fargo Securities Europe S.A. ("WFSE"). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in MiFID2. This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE