

Special Commentary — January 10, 2025

December CPI Preview: Concerns About Sticky Inflation to Linger

Summary

The December CPI report should indicate that the underlying trend in inflation is not re-accelerating, but it is unlikely to allay the FOMC's increased concerns that inflation has become stuck uncomfortably above its target. We look for the headline CPI to rise 0.4% on the back of a strong gain in energy prices, which would push the year-over-year rate up to a five-month high of 2.9%. Excluding food and energy, price growth looks to have been more moderate in December. After advancing 0.3% for four consecutive months, we look for the core index to increase 0.2%. If realized, that would leave the year-over-year rate at 3.3% for a fourth straight month. While we do not believe progress in the fight against inflation is going into reverse, we do see it stalling this year as earlier tailwinds to disinflation from supply chain improvements and lower commodity prices have faded and as fresh headwinds from trade policy are likely to emerge.

Economist(s)

Sarah House

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

Aubrey Woessner

Economic Analyst | Wells Fargo Economics
Aubrey.B.Woessner@wellsfargo.com | 704-410-2911

December 2024 Forecast

	Wells Fargo Economics			Consensus	
	MoM (%)	3-M Ann. (%)	YoY (%)	MoM (%)	YoY (%)
CPI	0.36	3.7	2.9	0.3	2.9
Food	0.34	3.6	2.5	-	-
Energy	2.08	9.4	-0.9	-	-
Core CPI	0.22	3.3	3.3	0.2	3.3
Goods	0.04	1.6	-0.6	-	-
Services	0.28	3.7	4.5	-	-
Primary Shelter	0.31	3.7	4.7	-	-
"Super Core"*	0.23	3.6	4.2	-	-
<i>Not Seasonally Adjusted</i>	Index	MoM (%)	YoY (%)	Index	MoM (%)
CPI	315.599	0.0	2.9	315.591	0.1

Forecast as of: January 10, 2025; Bloomberg Consensus

*Core services CPI excluding rent of primary residence and owners' equivalent rent (i.e., excluding "Primary Shelter")

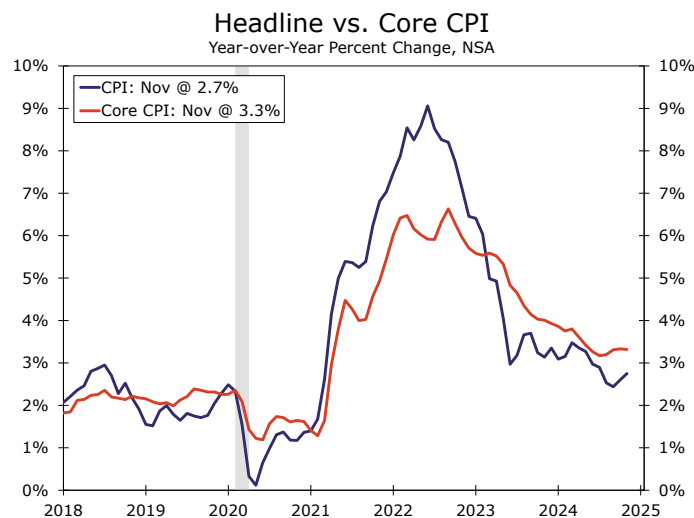
Source: U.S. Department of Labor, Bloomberg Finance L.P. and Wells Fargo Economics

Headline Inflation Firming as Energy Prices Rebound

The lack of additional progress recently in the fight against inflation has tilted the Fed's focus back toward the price stability side of its mandate. The core Consumer Price Index has increased an average of 0.30% the past three months, or at an annualized rate of 3.7%. The Fed's preferred measure of inflation has fared a little better; over the past three months, the core PCE price index has increased an average of 0.21%, or an annualized rate of 2.5%. But that still leaves price growth running above the Fed's 2% target, with the more limited pace of improvement in 2024 evident in the year-over-year rate ticking up to 2.8% in November from 2.6% in June.

With the jobs market looking steadier since late last summer, we believe the FOMC will need to see progress on inflation resume as soon as this month in order to keep another rate cut in Q1 on the table. The December CPI report is likely to provide a half-hearted step to that end. We look for the core CPI to advance a more palatable 0.2% in November (0.22% unrounded). That said, with the increase in headline CPI looking likely to round up to 0.4% (0.36% unrounded), concerns about inflation becoming stuck above target are likely to linger. We estimate the 12-month change in CPI to rise to a five-month high of 2.9% in December.

Figure 1



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

Solid increases in energy and food prices in December look set to bolster the headline's gain. Gasoline prices fell less than usual this December and point to energy goods rising 3.7% over the month on a seasonally adjusted basis. Energy services inflation also looks likely to have firmed, with a further pickup in store in early 2025 after the recent spike in natural gas prices.

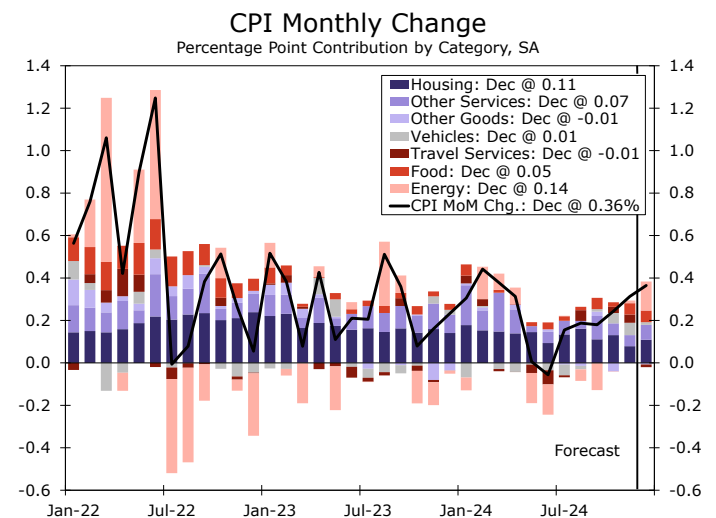
We suspect the late timing of Thanksgiving and the typical discounting that goes on at grocers around the holiday contributed to November's pop in prices for food at home. However, payback in December is likely to be minimal, with promotional activity at supermarkets down relative to last December and food-related commodity prices moving up since the fall.

Softer Core Unlikely to Be a Game-changer for Sticky Outlook

While the December CPI report is likely to show a more challenging price environment for necessities such as food and energy, a more tepid gain in the core index should suggest that the underlying trend in inflation is at least not re-accelerating. We look for the easing in monthly core CPI inflation to 0.2% from 0.3% in November to keep the year-over-year rate at 3.3% and within the narrow range of 3.2%-3.3% for a seventh straight month.

The moderation in the monthly pace of core CPI increases in December is likely to be primarily driven by core goods. New and used vehicles provided a sizable lift to core goods prices the past few months, fueled by replacement demand following Hurricanes Helene and Milton and lower financing costs. Yet with the CPI for used autos vehicles largely realigned with wholesale auction prices, we look for more modest gains in vehicle prices in December (Figure 3). Other core goods prices are likely to be

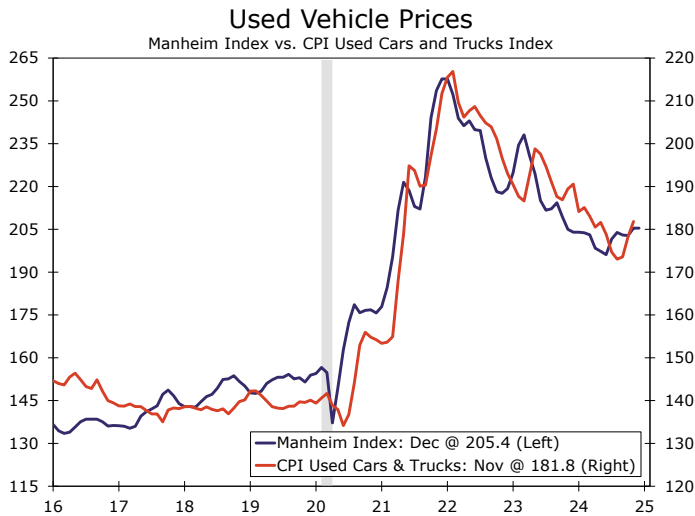
Figure 2



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

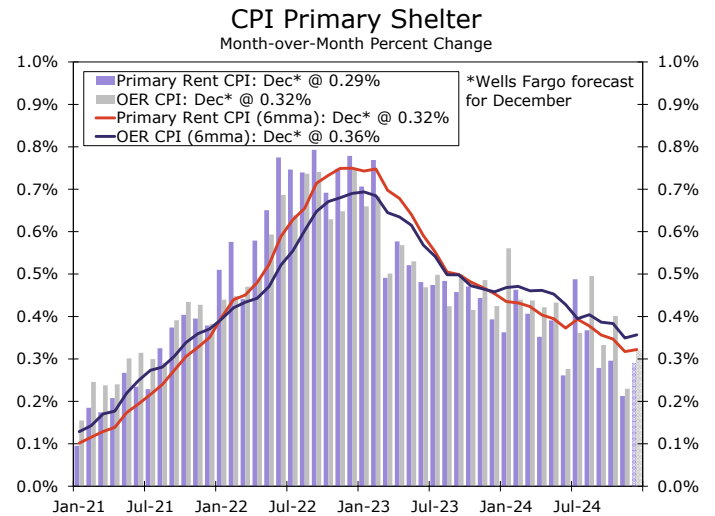
unchanged and continue to firm on a year-over-year basis as the deflationary impulse from un-kinked supply chains has faded.

Figure 3



Source: Bloomberg Finance L.P., U.S. Department of Labor and Wells Fargo Economics

Figure 4

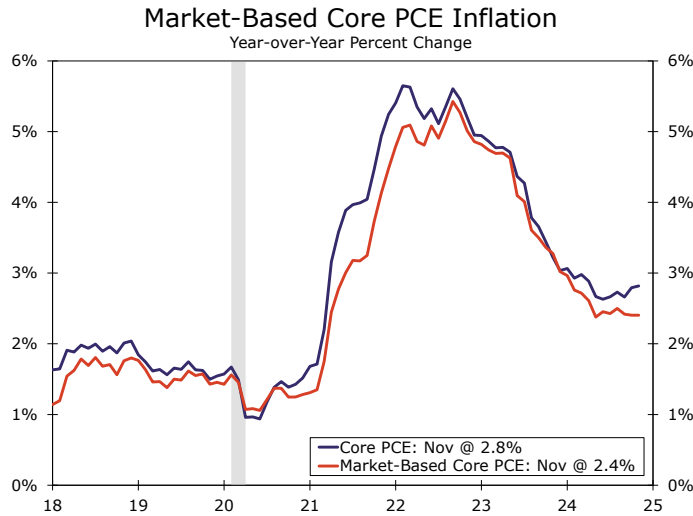


Source: U.S. Department of Labor and Wells Fargo Economics

We expect core services to advance 0.3% again in December, but for the drivers to look a little different from November. While the deceleration in primary shelter in November was a welcome sign that housing disinflation has further room to run, last month's move likely overstated the pace at which the trend is slowing. As a result, we look for the monthly change in primary shelter to edge back up to 0.3% in December from 0.2% in November (Figure 4). The pickup should be offset, however, by a partial reversal of last month's 3.2% jump in hotel prices. Among all non-housing core services, we look for the monthly change in inflation to ease from 0.3% in November to 0.2% in December, which would push the year-over-year change in the CPI "super core" down to a 12-month low of 4.2%.

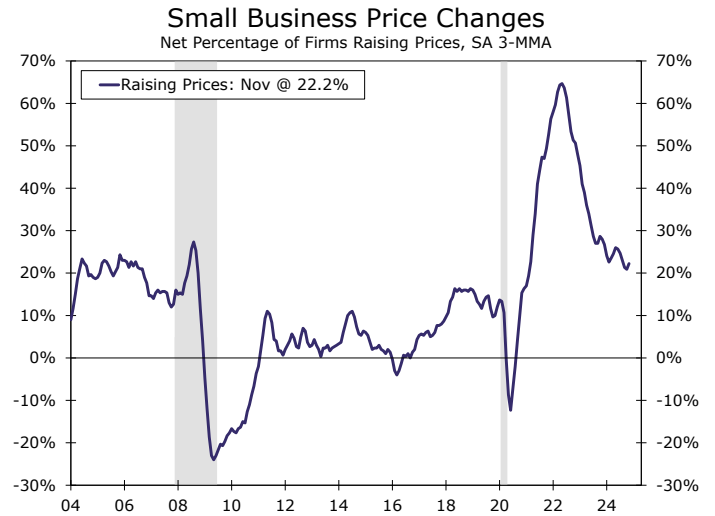
Our estimates point to the core PCE deflator advancing 0.2% in December, which would leave the year-over-year rate, at 2.8%, above its summer level. Yet Fed Chair Powell and other officials have been emphasizing that, excluding categories where prices are imputed rather than directly observed, progress on inflation has not gone into reverse (Figure 5). We estimate that the market-based core PCE, the Fed's inflation measure du jour, rose 0.2% in December to remain closer than the traditional core to the FOMC's target at 2.5% year-over-year.

Figure 5



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

Figure 6



Source: NFIB and Wells Fargo Economics

While Fed officials have not completely lost faith in further disinflation ahead, the slow progress over the past year has underscored that the last leg of inflation's journey back to target will be the most arduous. The path ahead looks even more challenging now with economic policies under the incoming administration likely to be inflationary. While downward forces remain in place from stronger productivity growth, the cooler labor market and more price-conscious consumers, business remain more willing to raise prices than before the pandemic as consumers have not fully gone into hiding and increases in tariffs are likely to leave them little choice (Figure 6). As a result, we look for the pace of inflation to be little changed this year, leaving it stuck above the FOMC's target for a fifth consecutive year (Table).

Wells Fargo U.S. Inflation Forecast																
	Actual								Forecast							
	2023				2024				2025				2026			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
CPI (YoY)	5.7	4.0	3.6	3.2	3.2	3.2	2.6	2.7	2.7	2.6	3.0	2.9	2.7	2.7	2.7	2.6
QoQ Annualized	3.8	3.0	3.4	2.7	3.8	2.8	1.2	3.1	3.5	2.8	2.7	2.7	2.8	2.7	2.4	2.3
Core CPI (YoY)	5.5	5.2	4.4	4.0	3.8	3.4	3.2	3.3	3.0	2.9	3.1	3.0	3.0	3.0	2.9	2.7
QoQ Annualized	4.9	4.7	3.0	3.4	4.2	3.2	2.2	3.5	3.1	2.9	3.0	3.1	3.0	2.8	2.6	2.5
PCE Deflator (YoY)	5.0	3.9	3.4	2.8	2.7	2.6	2.3	2.4	2.3	2.3	2.5	2.6	2.5	2.4	2.3	2.2
QoQ Annualized	3.9	2.9	2.7	1.7	3.4	2.5	1.5	2.3	2.9	2.5	2.4	2.5	2.5	2.3	2.1	2.0
Core PCE Deflator (YoY)	4.9	4.6	3.9	3.2	3.0	2.7	2.7	2.8	2.5	2.5	2.6	2.6	2.6	2.6	2.5	2.3
QoQ Annualized	4.7	3.8	2.4	2.0	3.7	2.8	2.2	2.5	2.6	2.6	2.6	2.7	2.6	2.3	2.2	2.1

Forecast as of: January 10, 2025
 Note: All numbers are percent change.

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

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

Via The Bloomberg Professional Services at WFRE

Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@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
Jeremiah Kohl	Economic Analyst	212-214-1164	Jeremiah.J.Kohl@wellsfargo.com
Aubrey Woessner	Economic Analyst	704-410-2911	Aubrey.B.Woessner@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Anna Stein	Economic Analyst	212-214-1063	Anna.H.Stein@wellsfargo.com
Ali Hajibeigi	Economic Analyst	212-214-8253	Ali.Hajibeigi@wellsfargo.com
Coren Miller	Administrative Assistant	704-410-6010	Coren.Miller@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. © 2025 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