

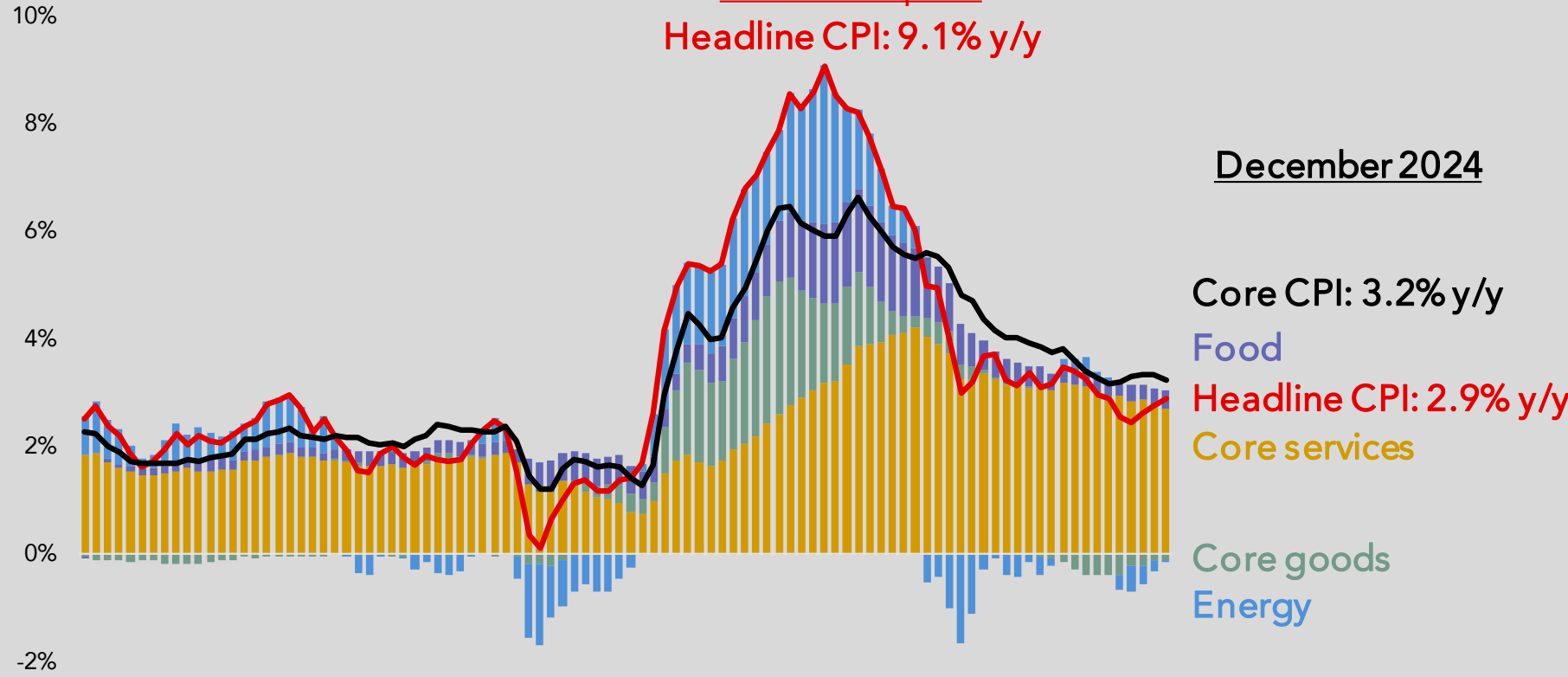
Chart of the Day

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The December core inflation reading showed some relief in prices, with an unexpected decline in annual core inflation to 3.2%, the first drop since July. On a monthly basis, core inflation rose 0.2%, after rising 0.3% for four consecutive months. Headline inflation came in as expected, rising 0.4% m/m and 2.9% y/y, the third straight month of annual gains. Energy was the largest driver of the overall number, up 2.6% in December and accounting for over 40% of the monthly all items increase. Gasoline prices rose 4.4%. Shelter, airfares, used and new cars and trucks, medical care and motor vehicle insurance also saw price increases.

Breakdown of CPI by components



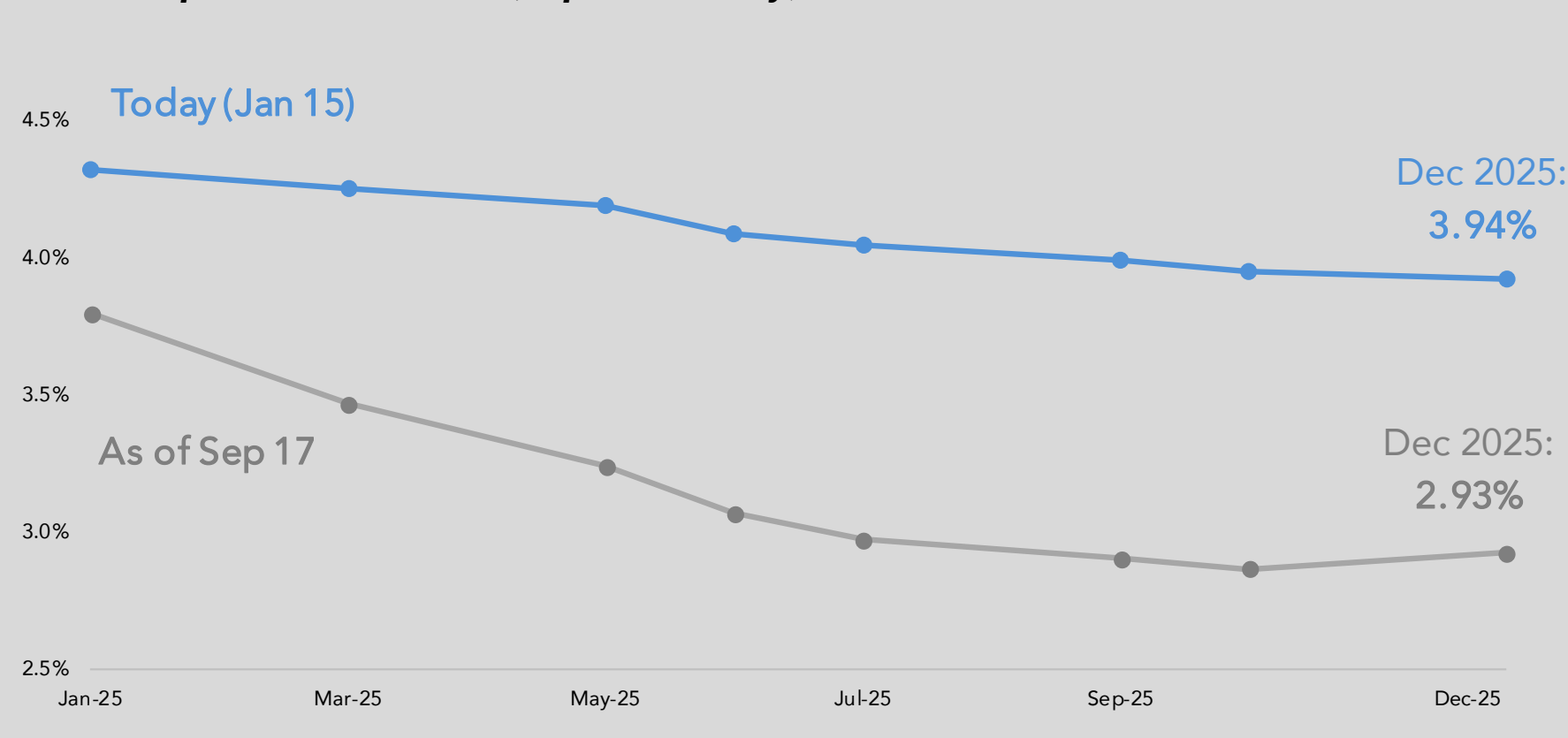
Core inflation unexpectedly eased for the first time in six months, rising 0.2% m/m and 3.2% y/y. On a headline level, December inflation came in as expected, rising 0.4% m/m and 2.9% y/y, with over 40% of the monthly increase driven by an acceleration in energy prices.

December CPI inflation actual vs. estimates

Metric	Actual	Estimate	Difference
Headline CPI y/y	+2.9%	+2.9%	+0.0%
Headline CPI m/m	+0.4%	+0.4%	+0.0%
Core CPI y/y	+3.2%	+3.3%	(-0.1%)
Core CPI m/m	+0.2%	+0.3%	(-0.1%)

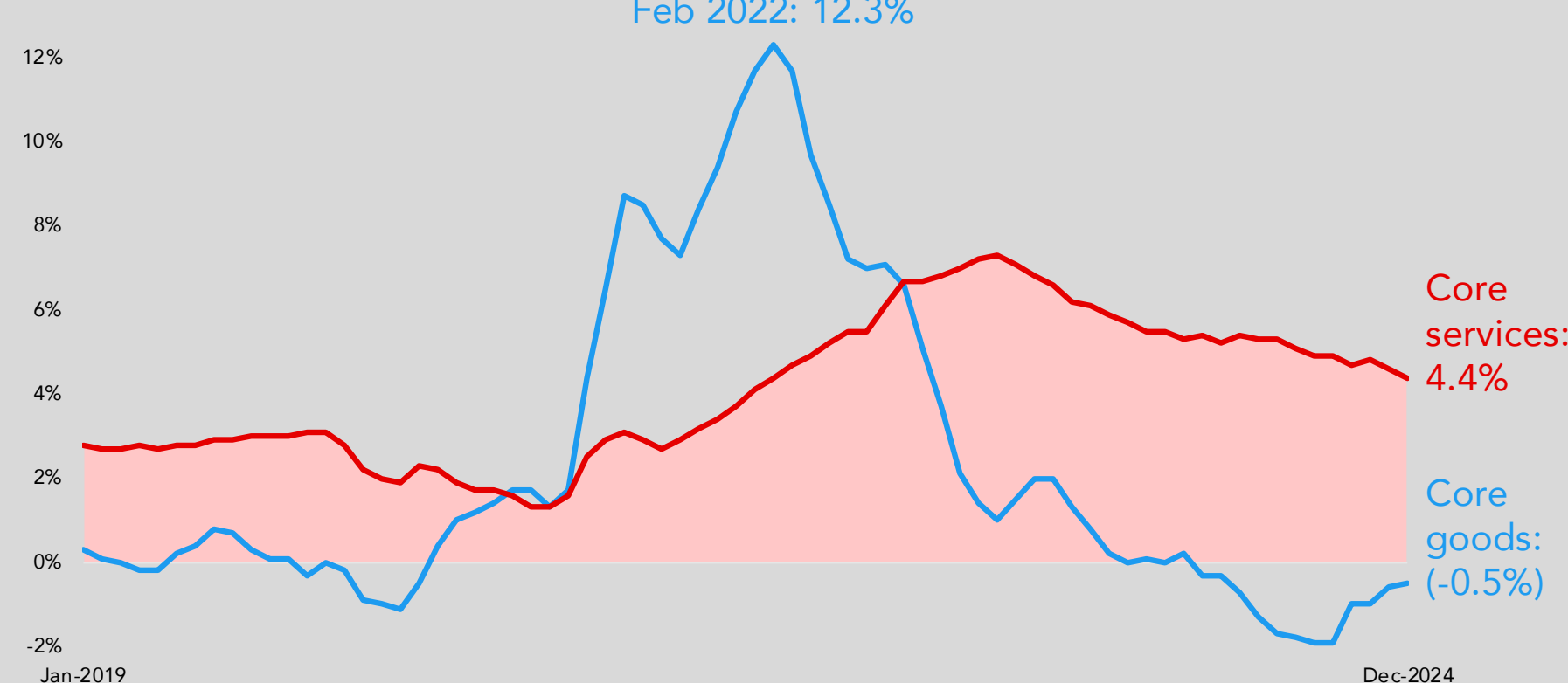
While good news for the economy has been bad news for the market, today's inflation reading offers some relief that the Fed may be able to continue easing in 2025. Underlying price pressures still remain relatively stubborn, though equities rallied and the 10 year fell over 10 bps following the inflation reading. The market is now pricing in 40 bps of easing by December 2025, with the first full cut not priced in until July.

Marked implied Fed Funds rate (Sep 17 vs. today)



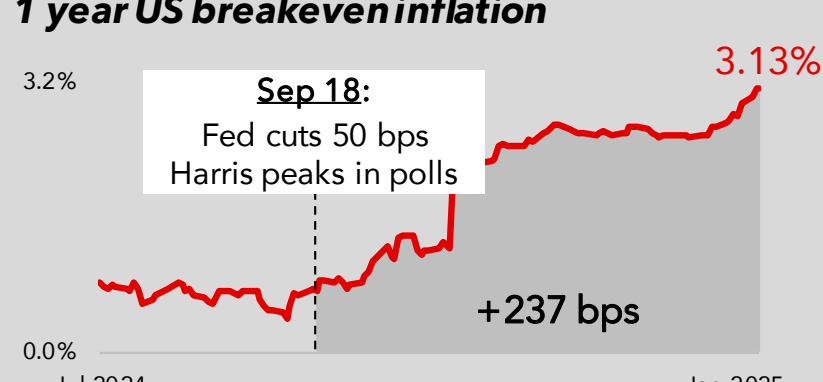
Core goods prices rose 0.1% m/m, a slowdown from the 0.3% increase in November. Core services rose 0.2%, the smallest monthly increase since July, driven by a deceleration in shelter costs. The overall shelter figure rose 0.3% m/m, the smallest increase in three months, and 4.6% y/y, the smallest 12-month increase since January 2022. Owner's equivalent rent, the estimated cost of housing for homeowners, rose 0.3%, an acceleration from November, but still much slower than what we have seen over the last few years. Supercore inflation, which excludes housing, rose 0.21%, the lowest reading since July.

US core goods and services inflation, y/y

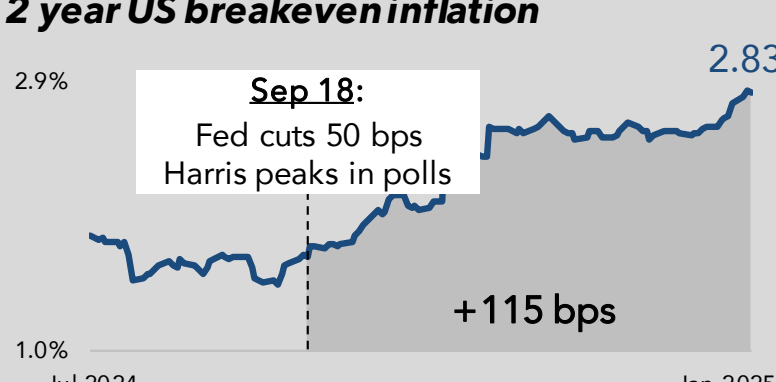


Even as inflation has fallen precipitously over the last two years, rising inflation break-evens suggest investors are on edge about "expected" US inflation. Numerous factors contributing to this uncertainty include: (1) stickiness in core and services inflation; (2) President-elect Trump's policy positions (fiscal, trade, immigration); (3) the Fed's pivot to easing; and (4) potential challenges to Fed policy independence.

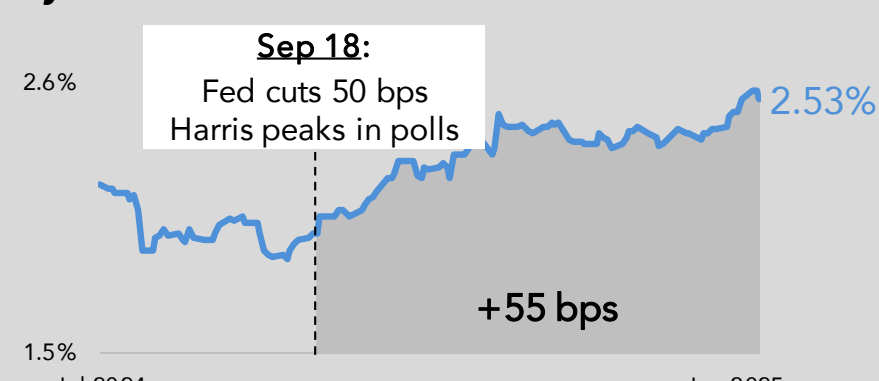
1 year US breakeven inflation



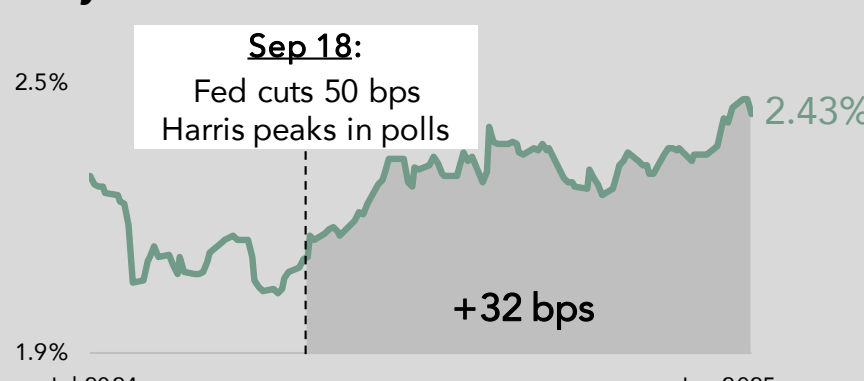
2 year US breakeven inflation



5 year US breakeven inflation



10 year US breakeven inflation



While m/m inflation data provides very useful information on the recent momentum in (dis)inflation, a look at today's CPI data on a y/y basis provides a useful lens on the categories in which the consumer is feeling the most cost pressure (and relief) relative to one year ago.

December US inflation by sector (y/y)

Energy	Food	Core goods	Core services
Eggs	37%	Energy services	3%
Motor vehicle insurance	11%	Funeral expenses	3%
Airline fares	8%	Electricity	3%
Transportation services	7%	Professional services	3%
Delivery services	7%	Recreation services	3%
Tobacco & smoking products	7%	Meats	3%
Veterinarian services	6%	Lodging away from home	3%
Motor vehicle maint. & Repair	6%	Physicians' services	3%
Day care and preschool	6%	College tuition and fees	3%
Public transportation	6%	Nonalcoholic beverages	2%
Water & sewerage maint.	6%	Jewelry and watches	2%
Moving, storage, freight expense	5%	Land-line phone services	2%
Laundry & cleaning services	5%	Audio equipment	2%
Nursing homes	5%	Milk	2%
Utility gas service	5%	Food at home	2%
Health insurance	5%	Photo equipment & supplies	2%
Owners' equivalent rent	5%	Vehicle accessories	2%
Rent of shelter	5%	Alcoholic beverages	1%
Shelter	5%	Computer software and accessories	1%
Financial services	4%	Motor vehicle parts and equipment	1%
Services less energy	4%	Tires	1%
Garbage & trash collection	4%	Apparel	1%
Music instruments & acces.	4%	Housekeeping supplies	1%
School tuition	4%	Technical & bus. school tuition	1%
Food away from home	4%	Fruits and vegetables	1%
Hospital services	4%	Cereals & bakery products	1%
Medical care services	3%	Footwear	1%
Medicinal drugs	1%		
Personal care products	1%		
Cosmetics	0.3%		
New trucks	(-0.3%)		
Intracity mass transit	(-0.4%)		
Internet services	(-0.4%)		
New vehicles	(-0.4%)		
Recreational reading	(-1%)		
Energy	(-1%)		
Wireless phone services	(-1%)		
Pets & pet products	(-1%)		
Household furnishings & supplies	(-1%)		
Furniture & bedding	(-2%)		
Tools, hardware & supplies	(-2%)		
Sporting goods	(-2%)		
Outdoor equip. & supplies	(-2%)		
Used cars and trucks	(-3%)		
Appliances	(-4%)		
Toys	(-4%)		
Motor fuel	(-4%)		
Energy commodities	(-4%)		
TVs	(-4%)		
Computers and smart home assistants	(-5%)		
Car & truck rental	(-6%)		
Smartphones	(-12%)		

Source: (1-10) Bureau of Labor Statistics, CPI Report December 2024, Bloomberg. Data as of January 15, 2025. Goods is commodities less food and energy commodities. Services is less energy.

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"Macro stability isn't everything, but without it, you have nothing."