

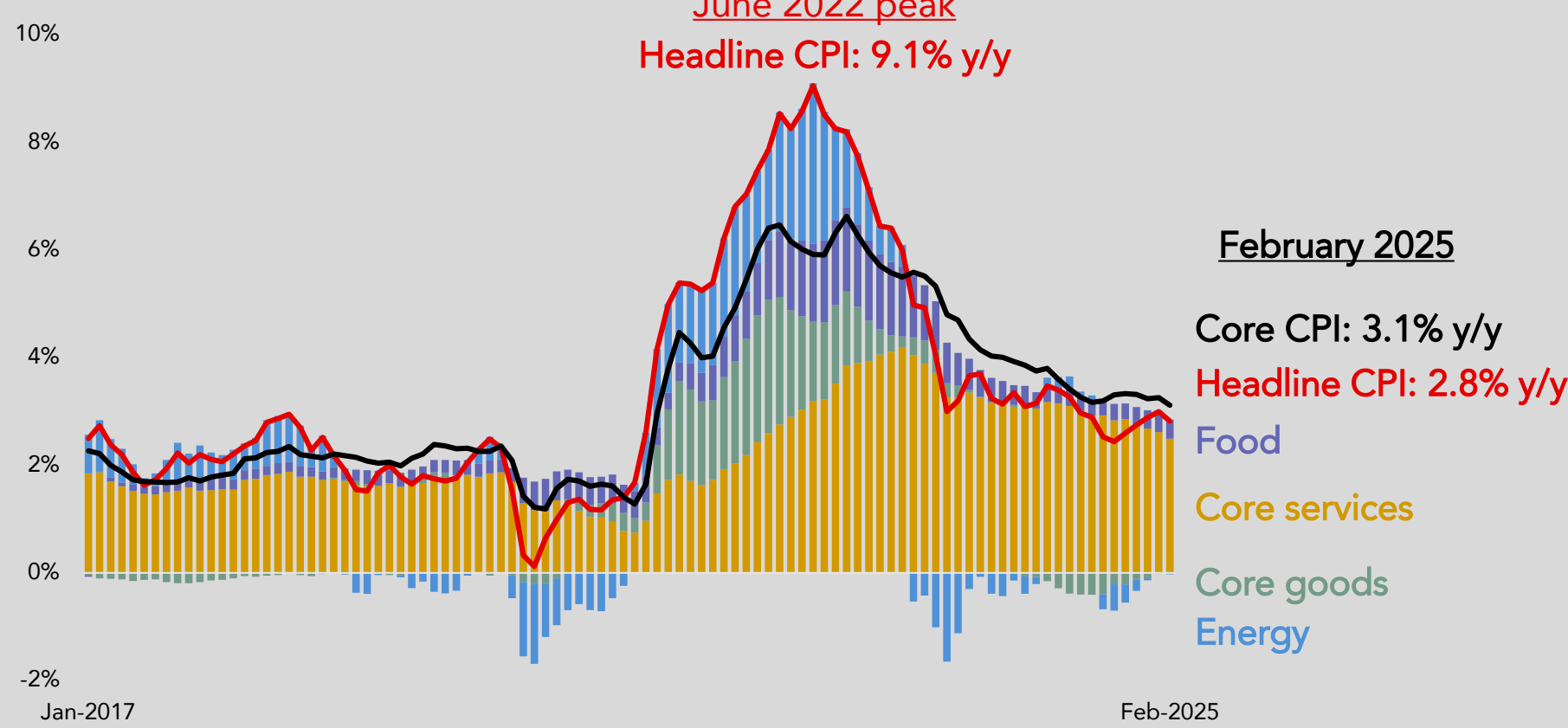
# Chart of the Day

**LEARN MORE**  
Click Here



Headline and core US inflation data dropped below expectations in February, providing modest tailwinds for risk-assets at a time of elevated policy uncertainty. Headline prices rose 0.2% m/m in February, the slowest pace in four months, and 2.8% y/y, the smallest increase since last November. Core prices rose 0.2% m/m, and 3.1% y/y, the smallest increase since April 2021 when US inflation first started to surge. Airline fares, new cars and gasoline prices all declined on the month. Shelter costs decelerated to 0.3% m/m in February and 4.2% y/y, the smallest annual increase since December 2021. However, shelter still accounted for nearly half of the monthly all items increase.

### Breakdown of CPI by components



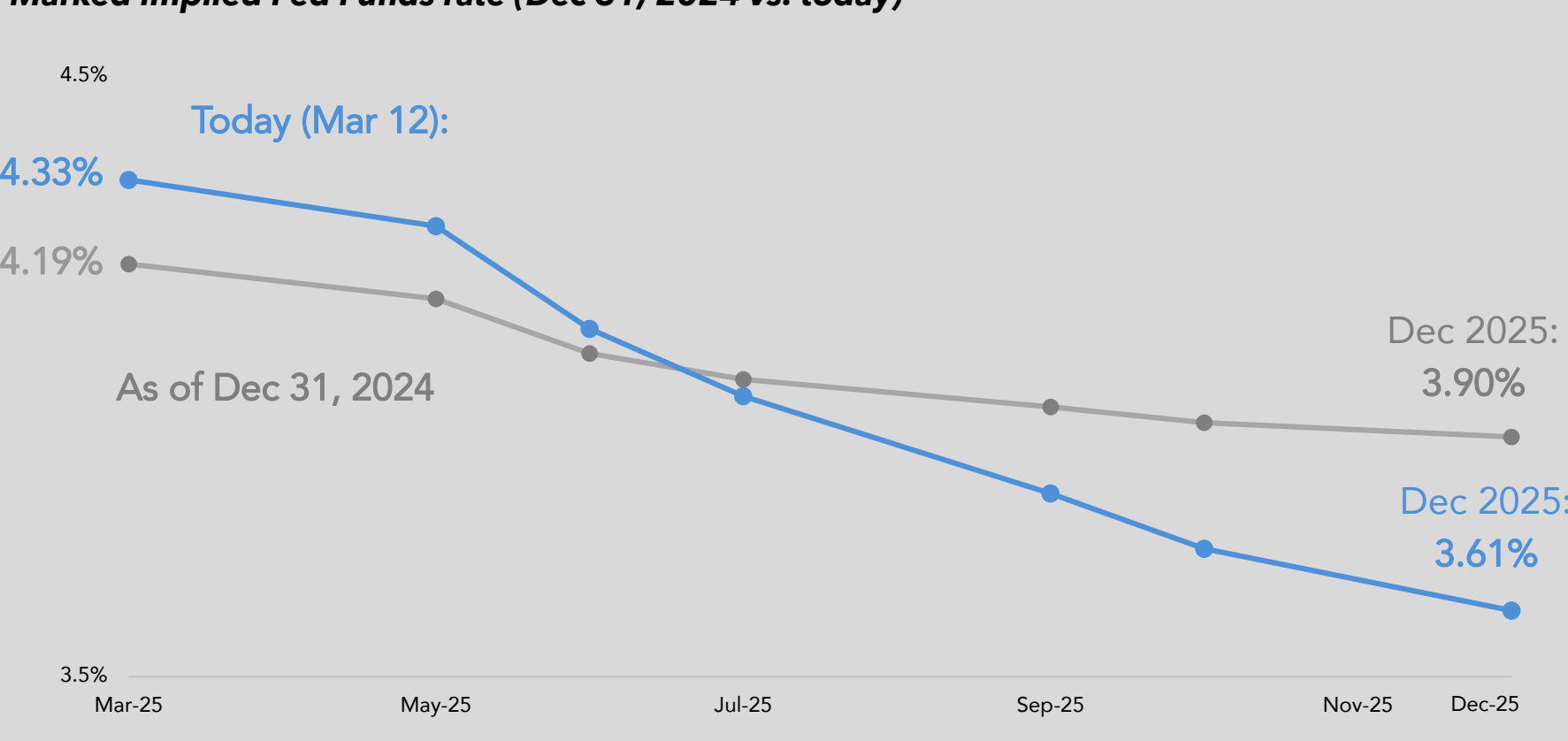
US consumer prices came in softer than expected in February, with headline inflation rising 2.8% y/y and 0.2% m/m. Core inflation rose 3.1% y/y and 0.2% m/m. The report offered some relief as inflation is heading in the right direction, though uncertainty surrounding tariff policy and how they will impact prices still remains.

### February CPI inflation actual vs. estimates

Metric	Actual	Estimate	Difference
Headline CPI y/y	+2.8%	+2.9%	(-0.1%)
Headline CPI m/m	+0.2%	+0.3%	(-0.1%)
Core CPI y/y	+3.1%	+3.2%	(-0.1%)
Core CPI m/m	+0.2%	+0.3%	(-0.1%)

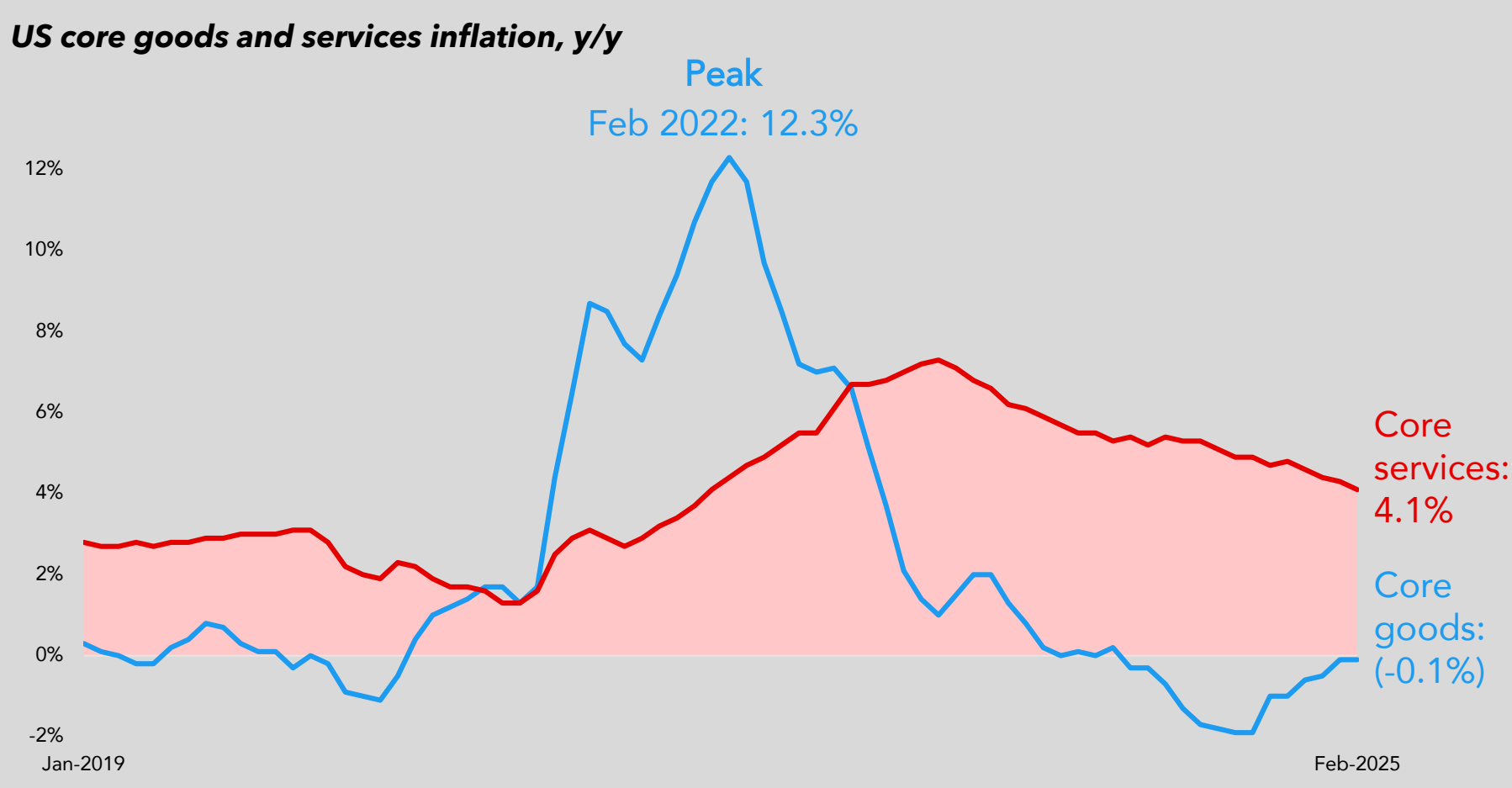
The market is becoming increasingly worried about growth over inflation. Marked implied Fed Funds are pricing in nearly 3 rate cuts by December 2025 with the first rate cut now expected in June. Just a month ago, the market was pricing in only one full rate cut by the December FOMC meeting. While the February inflation report is a positive sign in terms of inflation, the Fed is waiting for more clarity surrounding some of the new administration's policy plans.

### Marked implied Fed Funds rate (Dec 31, 2024 vs. today)

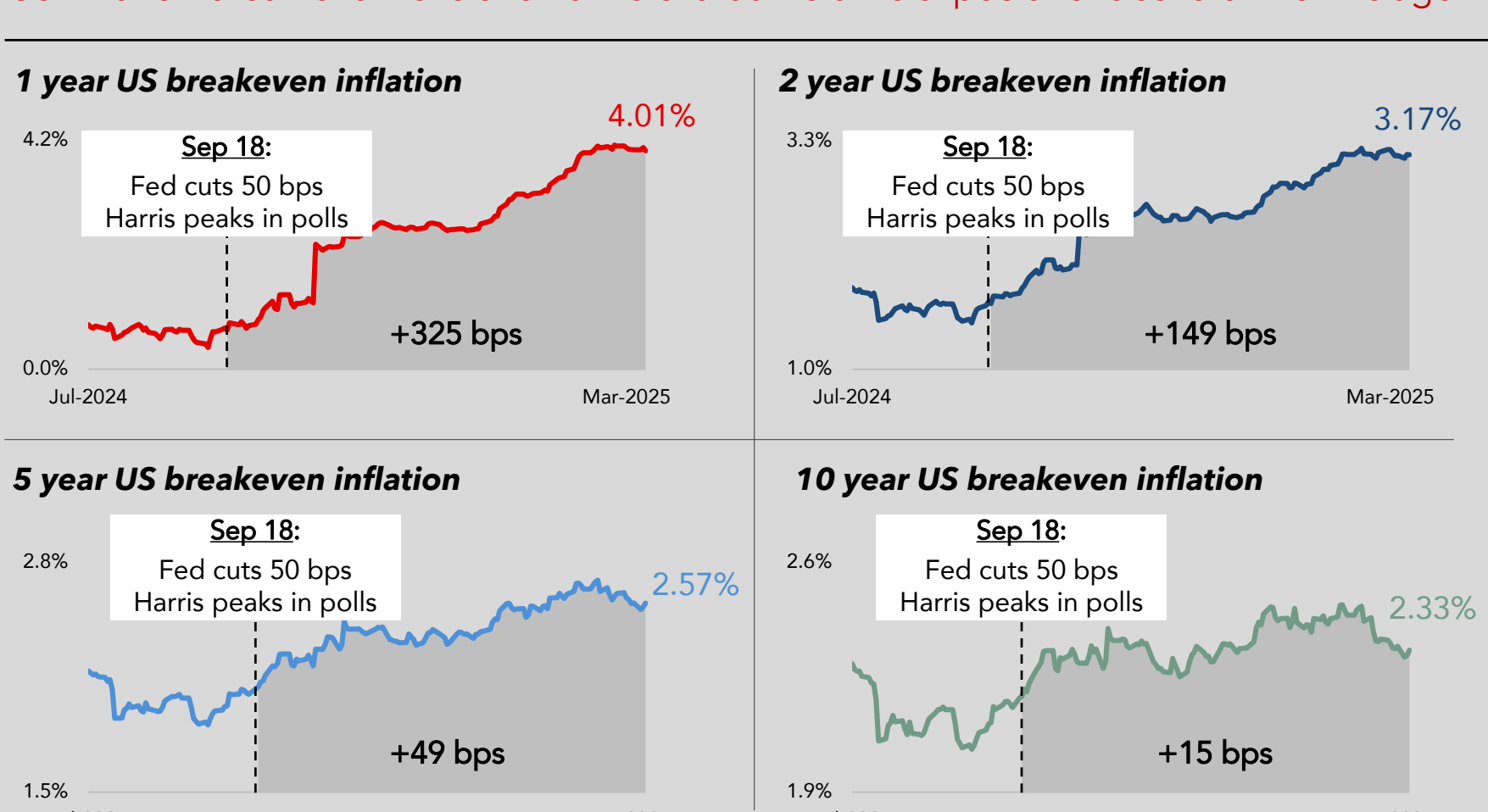


Core services prices rose by 0.3% m/m in February after rising by the most in a year last month. Core goods prices also slowed a bit, up 0.2% m/m. Super core inflation, which excludes housing, came in at 0.2% m/m, much lower than the 0.76% monthly increase we saw in January. Transportation services posted its largest monthly price drop since June 2023 driven by a sharp decline in airline fares as several airlines warn of weaker demand in the months ahead. While inflation has cooled across its key main categories, core goods and services, a big part of the deceleration in prices is being driven by a pullback in consumer demand for discretionary items.

### US core goods and services inflation, y/y



Despite the softer February inflation reading, and the market's pivot to growth concerns, US inflation break-even levels remain elevated vis-a-vis expectations several months ago.



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 new lens on the categories in which the consumer is feeling the most cost pressure (and relief) relative to one year ago.

### February US inflation by sector (y/y)

Sector	Inflation (y/y)
Eggs	59%
Motor vehicle insurance	11%
Educational books	9%
Veterinarian services	8%
Tobacco & smoking products	7%
Delivery services	6%
Transportation services	6%
Utility gas service	6%
Motor vehicle maint. & Repair	6%
Day care and preschool	5%
Garbage & trash collection	5%
Water & sewerage maint.	5%
Laundry & cleaning services	5%
Owners' equivalent rent	4%
Rent of shelter	4%
Recreation services	4%
Shelter	4%
Nursing homes	4%
Services less energy services	4%
Health insurance	4%
Meats	4%
Jewelry and watches	4%
Food away from home	4%
Hospital services	4%
School tuition	4%
Moving, storage, freight expense	4%
Funeral expenses	3%
Energy services	3%
Medical care services	3%
Land-line phone services	3%
Medicinal drugs	3%
Physicians' services	3%
Electricity	3%
Professional services	2%
Intracity mass transit	2%
College tuition and fees	2%
Music instruments & acces.	2%
Nonalcoholic beverages	2%
Lodging away from home	2%
Recreational reading	2%
Food at home	2%
Alcoholic beverages	2%
Vehicle accessories	2%
Milk	2%
Motor vehicle parts and equipment	1%
Technical & bus. school tuition	1%
Tires	1%
Used cars and trucks	1%
Apparel	1%
Photo equipment & supplies	0.4%
Housekeeping supplies	0.4%
Outdoor equip. & supplies	0.4%
Personal care products	0.3%
Cereals & bakery products	0.3%
Computer software and accessories	0.1%
Energy	(-0.2%)
Footwear	(-0.2%)
Fruits and vegetables	(-0.2%)
New trucks	(-0.2%)
Tools, hardware & supplies	(-0.3%)
New vehicles	(-0.3%)
Wireless phone services	(-0.3%)
Household furnishings & supplies	(-0.4%)
Pets & pet products	(-1%)
Public transportation	(-1%)
Internet services	(-1%)
Airline fares	(-1%)
Cosmetics	(-1%)
Toys	(-2%)
Furniture & bedding	(-2%)
Financial services	(-3%)
Appliances	(-3%)
Audio equipment	(-3%)
Energy commodities	(-3%)
Motor fuel	(-3%)
Sporting goods	(-5%)
Computers and smart home assistants	(-6%)
Car & truck rental	(-7%)
TVs	(-9%)
Smartphones	(-14%)

Source: (1-10) Bureau of Labor Statistics, CPI Report February 2025, Bloomberg, Data as of March 12, 2025. Goods is commodities less food and energy commodities. Services is less energy.

### Global Corporate & Investment Banking Capital Markets Strategy Team

**Tom Joyce**  
Managing Director  
Tom.Joyce@mufgsecurities.com  
(212) 405-7472

**Stephanie Kendal**  
Vice President  
Stephanie.Kendal@mufgsecurities.com  
(212) 405-7443

**Angela Sun**  
Analyst  
Angela.Sun@mufgsecurities.com  
(212) 405-6952

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