

## Warmer CPI Report Reduces Odds of March Rate Cut

The December Consumer Price index (CPI) came in slightly above forecast as energy prices edged higher while shelter costs remained frustratingly sticky. Headline CPI rose +0.3% last month, just above the +0.2% median forecast. On a year-over-year basis, CPI was up +3.4%, higher than the +3.2% median forecast and a notable increase from the +3.1% annual pace in November.

The primary contributor to the warmer-than-expected consumer inflation was the cost of shelter, up +0.5% for the month and +6.2% year-over-year, despite ample evidence that rent prices are declining. Energy prices also added upward pressure last month. Gasoline rose +0.2% after back-to-back declines of -5.0% (Oct) and -6.0% (Nov).

Overall food prices seem to have stabilized, rising +0.2% for the second straight month and +2.7% year-over-year. However, the food-at-home index (groceries) was up just +0.1% and +1.3% year-over-year. The more persistent pressure is in the food-away-from-home index (restaurants), up +0.3% and +5.2% YoY.

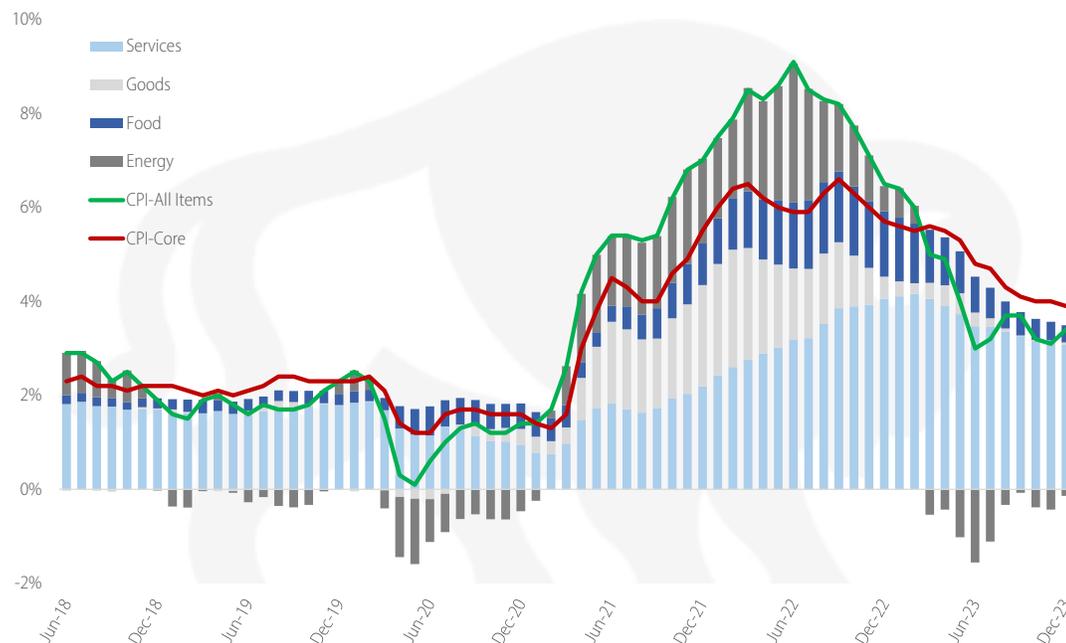
Both new and used vehicle prices rose in December after moderating for much of 2023. The price for a new car or truck increased +0.3% in December and +1.0% on an annual basis. Used car prices climbed +0.5% for the month, but were down -1.3% YoY. The cost of vehicle insurance, although accounting for the less than 3% of the overall price index, continues to raise eyebrows, up another +1.5% for the month and +20.3% for the past year.

*Scott McIntyre, CFA*  
HilltopSecurities Asset Management  
Senior Portfolio Manager  
Managing Director  
512.481.2009  
scott.mcintyre@hilltopsecurities.com

*Greg Warner, CTP*  
HilltopSecurities Asset Management  
Senior Portfolio Manager  
Managing Director  
512.481.2012  
greg.warner@hilltopsecurities.com

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### Consumer Price Index (Year-over-Year Percent Change)



Source: Bureau of Labor Statistics

Core consumer inflation, which excludes the volatile food and energy categories, rose +0.3% in December, matching the median forecast, and +3.9% year-over-year. Although the annual increase was slightly above the median forecast, it was the first time the core CPI pace was below +4.0% since May 2021. Nearly 70% of the core increase is attributed to shelter costs, which are widely expected to fall in the coming months.

As has been the case for well over a year, the cost of services (which include shelter costs) make up the vast majority of the annual increase. Goods prices are actually *falling*.

The bond market has taken the CPI miss quite well. The early reaction was a slight rise in market yields, although at this point, bonds are essentially flat on the day. Investors probably understand prices don't move in a straight line. In fact, gasoline prices have already moved lower in January, and the cost of airfare and lodging away from home will probably decline as the holiday travel season ends.

This is the last CPI report before the January Fed meeting. Since it indicated consumer inflation was a bit *higher than expected*, the likelihood that Fed officials will signal a rate cut for the March FOMC meeting *should be lower*. However, at the this point, the futures market has priced in a 70% chance of a quarter point cut 69 days from now.

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## Market Indications as of 9:22 A.M. Central Time

DOW	Down -173 to 37,523 (HIGH 37,715)
NASDAQ	Down -51 to 14,919 (HIGH: 15,188)
S&P 500	Down -27 to 4,757 (HIGH: 4,783)
1-Yr T-bill	current yield 4.81%; opening yield 4.80%
2-Yr T-note	current yield 4.34%; opening yield 4.35%
3-Yr T-note	current yield 4.09%; opening yield 4.10%
5-Yr T-note	current yield 3.96%; opening yield 3.97%
10-Yr T-note	current yield 4.03%; opening yield 4.03%
30-Yr T-bond	current yield 4.22%; opening yield 4.20%

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