ResourceTrust
A DEPARTMENT OF RESOURCE BANK, N.A.

Weekly Insight

February 14, 2025

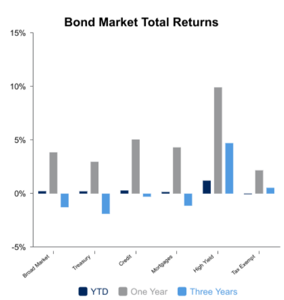
Upside Inflation Surprise – Not Really a Surprise

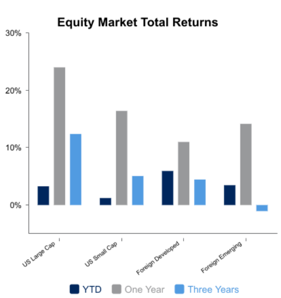
Equity markets were down -0.5% this week, despite fourth quarter earnings per share reports showing growth of +12% year-over-year that have surprised to the upside. This week bond markets declined -1.0%, giving up a large part of the year-to-date gain but remain positive at 0.2%. These declines coincided with Wednesday's Consumer Price Index (CPI) report that rose to 3.0% from 2.9%. This surprised markets to the high side of estimates with a one-month 0.5% increase in headline and 0.4% rise in core prices (excluding food and energy).

Core services prices led this upside surprise with the usual suspects leading the rise (e.g. auto insurance, airfares and shelter). Almost 30% of the total CPI gain came from shelter cost, although both rent, and homeowners' equivalent cost rose at a slower pace than seen in previous years. Core goods were also higher, rising 0.3% over last month with auto prices climbing 2.2% in one month. A non-core component Food rose 0.4%, the fastest monthly pace in two years, as the price of eggs jumped 15.2% last month. This higher trend may not hold as there is a significant seasonal effect in January that impacts the CPI data. Companies reset prices at the beginning of a year and many Americans see wage increases go into effect in January. Average hourly earnings ticked up 0.5% in January to post a 4.1% year-over-year increase, well above the 3.8% estimate. However, the average workweek fell to 34.1 hours from 34.2 hours, converting this advance from 0.5% to 0.2% (2.4% annualized).

Despite these inflation and wage readings, January's weak jobs report shows the United States labor market may be a counterweight to further rising inflation. While the unemployment rate fell to 4.0% from 4.1% in January, changes in the way the Bureau of Labor Statistics (BLS) calculates this number attributed to the decline rather than increased hiring. The BLS approach reflects a lower unemployment rate than what private estimates show that take in additional data on the number of eligible workers to form their estimates.

This week's CPI report serves as further evidence that inflation progress has at least at this moment stalled. Combined with a stable labor market, this reading will keep the Fed on hold regarding future interest rate reductions for the foreseeable future. While policymakers contemplate, markets reset their view that only one 25 basis point cut will occur this year, and it will take place in December. Previously markets had reflected two cuts in 2025.





Interest Rates (%)	Current	12M Ago	3YR Ago
Fed Funds Rate (Upper	4.50	5.50	0.25
3-Month T-Bill	4.33	5.39	0.34
10-Year Treasury	4.62	4.31	1.94
30-Year Treasury	4.83	4.46	2.24
10-Year Corporate AA	5.39	5.24	2.09
10-Year High Yield Corp	6.67	6.68	3.90
Commodity Prices ($)	**Current**	**12M Ago**	**3YR Ago**
Gold ($/oz.)	2,904	1,993	1,859
Oil (WTI, $/barrel)	71.37	77.87	93.10
Currencies	**Current**	**12M Ago**	**3YR Ago**
USD (Dollar Index Spot)	107.94	104.96	96.08
USD/EUR	0.96	0.93	0.88
USD/JPY	154.42	150.80	115.42

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