January inflation 2025 United States

Economy
February 12th, 2025



Paulina Villanueva
paulina.villanueva@hrratings.com
Economic Analysis and Sovereign Debt Senior Associate



Edgar González
edgar.gonzalez@hrratings.com
Economic Analysis and Sovereign Debt Senior Associate



Ricardo Gallegos
ricardo.gallegos@hrratings.com
Deputy Chief Economic Analysis Officer



Felix Boni
felix.boni@hrratings.com
Chief Credit and Economic Analysis Officer

Inflation exceeded expectations, reaching its highest level in eight months. This supports our hypothesis that the Fed will delay its next rate cut for a prolonged period

CPI inflation in January increased by 3.0% on an annual basis, marking the fifth consecutive month of acceleration, as shown in Figure 1. January's number compares to a 2.9% increase in December and a 3.1% increase in January 2024, suggesting that disinflationary progress has stalled at levels that exceed the Federal Reserve's (Fed) 2.0% target. With these results we expect the Fed to hold its interest target rate at its current level of 4.38% for a prolonged period[1].

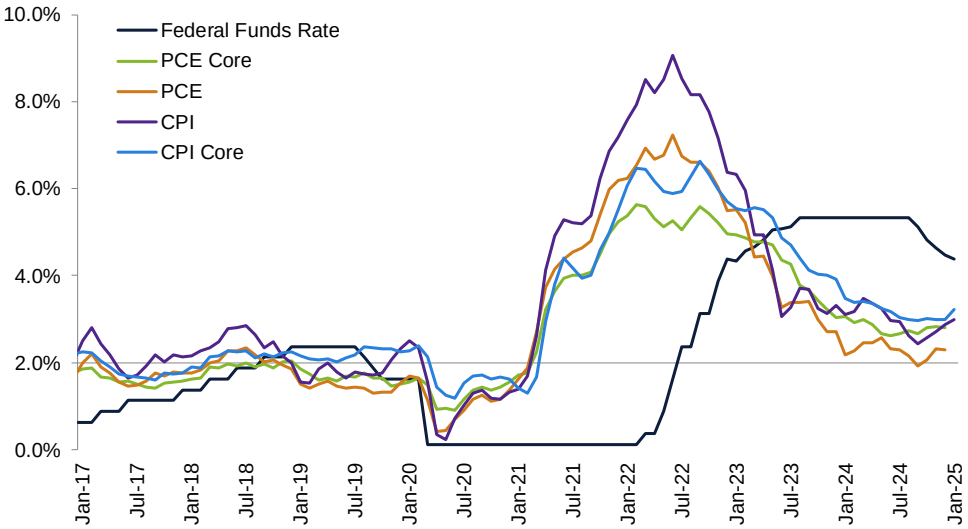
The report shows that core inflation appears to have stalled around 3.3% for some months now, while non-core pressures are growing after having decreased in the second half of 2024. Annual core inflation increased from 3.21% in December to 3.29% in January, as services inflation, after excluding energy and housing, remain elevated, reflecting the continued strength of U.S. economic activity. Rent of shelter inflation although lower than a year ago (6.1% in January 2024) remains high at 4.43%, while the cost of services less energy was 4.31% (vs. 5.37% a year ago). Food and energy, which are considered more volatile, resurged in January. Food was largely affected by the 53% annual upsurge in eggs. While energy prices were affected by piped gas services, which increased 2.5% year-over-year.

On a monthly basis, headline inflation increased 0.5%, maintaining the rising trend seen over the previous seven months with seasonally adjusted data. Core inflation also increased significantly in the month, rising 0.45%, the quickest rate in nearly two years. Core inflation was impacted by higher pricing for services such as shelter, transportation, and auto insurance, as well as higher prices for durable and non-durable goods.

Figure 1 below shows the evolution of the Federal Funds Rate (FFR) and different inflation metrics, including the PCE (through December) which is assumed to be the Fed's preferred inflation indicator. Although the overall PCE is close to the Fed's 2.0% target, it has moved up slightly in recent readings while core PCE has been increasing. With the 100bps reduction in the FFR the ex post real rate has declined. However, with inflation no longer declining and showing an upward trend and with an economy that is still strong, further declines in the FFR would probably reduce real rates to unnecessarily low levels. This is especially the case given the uncertainty introduced by President Trump's tariff policy and the strong increase in the Federal government's deficit in the first four months of the 2025 fiscal year.

[1] Average of the 4.0%-4.5% range.

Figure 1. Federal Funds Rate and year-over-year CPI and PCE inflation



Source: HR Ratings and historic information from the Fderal Reseve retrieved from FRED.

Tariffs could drive up inflation

In the short and medium term, pressures may arise from the implementation of tariffs on critical products used in the U.S. manufacturing sector. American customers would probably be most impacted by the 25% tariffs that are paid on steel and aluminum-related items, primarily from China, Mexico, and Canada, as a big share of all steel used in the U.S is imported, and producer price pressures are passed along to the final consumer. We would expect significant pressure on appliances and car prices. According to the U.S. Center for Economic and Policy Research, about US$6,000 to US$7,000 is spent on steel throughout the vehicle's construction, which could raise the vehicle's ultimate cost by US$5,000. This does not include possible pressures should tariffs be imposed on Mexican and Canadian additional imports. There is also the possibility of “reciprocal” tariffs being introduced against countries that have tariffs on US imports, or which engage in policies that the Trump administration considers disfavoring US companies.

Of course, it remains to be seen how much revenue President Trump’s tariff policy would generate for the Federal government. The Trump administration suggests that it would be significant. Presumably, this would have some deflationary impact. It also remains to be seen whether higher tariffs would actually have the longer-term desired impact of increasing production of tariff impacted goods in the U.S. which is the ultimate aim of the trade policy.

When 20% tariffs were placed on some imported items (such as home appliances) in 2018, the impact was felt almost immediately in the next three months, as the final price increased by 18%, according to research made by the U.S. firm Inflation Insights. Due to the increased importance of private consumption in economic activity, we anticipate that tariffs could have a stronger impact this time around. Nonetheless, this compelled the industrial sector to set up manufacturing facilities in the US.

HR Ratings de México, S.A. de C.V. ("HR Ratings"), is an credit rating agency authorized by the National Banking and Securities Commission(CNBV) and registered by the Securities and Exchange Commission (SEC) as a Nationally Recognized Statistical Rating Organization (NRSRO) for the assets of public finance, corporates and financial institutions as described in section 3 (a) (62) (A) and (B) subsection (i), (iii) and (v) of the US Securities Exchange Act of 1934 and certified as a Credit Rating Agency (CRA) by the European Securities and Markets Authority (ESMA) and the Financial Conduct Authority (FCA).

The ratings and/or opinions of HR Ratings de México S.A. de C.V. (HR Ratings) are opinions regarding the credit quality and/or the asset management capacity, or relative to the performance of the tasks aimed at the fulfillment of the corporate purpose, by issuing companies and other entities or sectors, and are based on exclusively in the characteristics of the entity, issue and/or operation, regardless of any business activity between HR Ratings and the entity or issuer. The ratings and/or opinions granted are issued on behalf of HR Ratings and not of its management or technical personnel and do not constitute recommendations to buy, sell or maintain any instrument, or to carry out any type of business, investment or operation, and may be subject to updates at any time, in accordance with the rating methodologies of HR Ratings.

HR Ratings bases its ratings and/or opinions on information obtained from sources that are believed to be accurate and reliable. HR Ratings, however, does not validate, guarantee or certify the accuracy, correctness or completeness of any information and is not responsible for any errors or omissions or for results obtained from the use of such information. Most issuers of debt securities rated by HR Ratings have paid a fee for the credit rating based on the amount and type of debt issued. The degree of creditworthiness of an issue or issuer, opinions regarding asset manager quality or ratings related to an entity's performance of its business purpose are subject to change, which can produce a rating upgrade or downgrade, without implying any responsibility for HR Ratings. The ratings issued by HR Ratings are assigned in an ethical manner, in accordance with healthy market practices and in compliance with applicable regulations found on the www.hrratings.com rating agency webpage. HR Ratings' Code of Conduct, rating methodologies, rating criteria and current ratings can also be found on the website.

Ratings and/or opinions assigned by HR Ratings are based on an analysis of the creditworthiness of an entity, issue or issuer, and do not necessarily imply a statistical likelihood of default, HR Ratings defines as the inability or unwillingness to satisfy the contractually stipulated payment terms of an obligation, such that creditors and/or bondholders are forced to take action in order to recover their investment or to restructure the debt due to a situation of stress faced by the debtor. Without disregard to the aforementioned point, in order to validate our ratings, our methodologies consider stress scenarios as a complement to the analysis derived from a base case scenario. The fees HR Ratings receives from issuers generally range from US$1,000 to $1,000,000 (one million dollars, legal tender in the United States of America) (or the equivalent in another currency) per offering. In some cases, HR Ratings will rate all or some of a particular issuer's offerings for an annual fee. Annual fees are estimated to vary between $5,000 and US$2,000,000 (five thousand to two million dollars, legal tender in the United States of America) (or the equivalent in another currency).

Media Contact

comunicaciones@hrratings.com