

U.S. Inflation Insight: February 2026

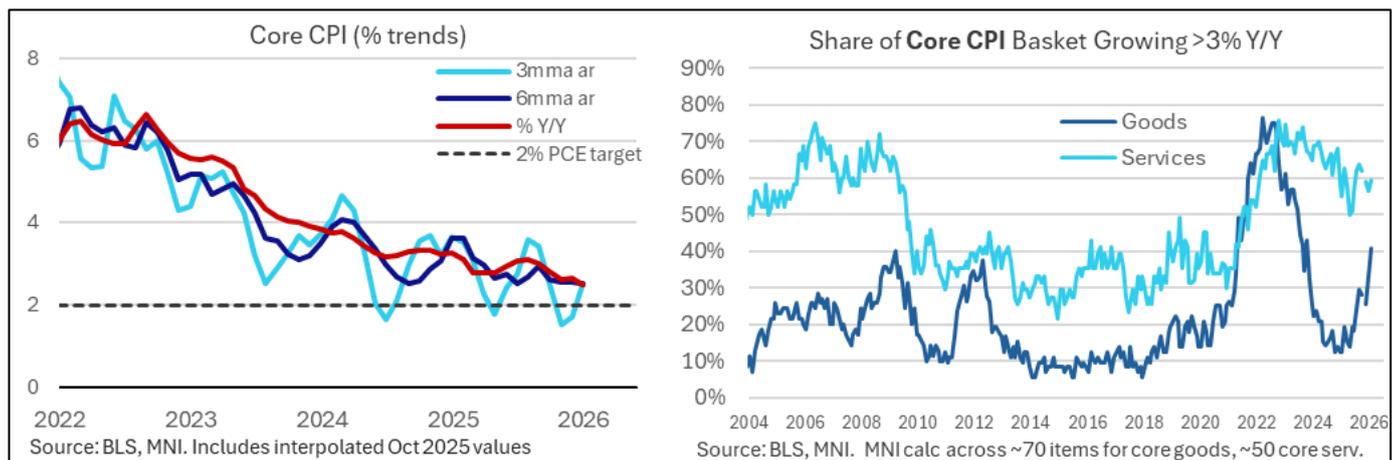
MNI View: A “Miss” But Underlying Pressures Remain

Feb 16, 2026 – By Chris Harrison and Tim Cooper

Executive Summary

- The **January CPI** report was softer-than-expected across most main categories, with another solid miss for unrounded core CPI at 0.295% M/M (cons 0.36%).
- Headline CPI at 0.17% M/M saw a larger miss owing to downside surprises in both food and energy, with the latter having seen a wider than usual range to analyst estimates on translation of natural gas and electricity moves into CPI.
- It left headline at 2.39% Y/Y (cons 2.5) and core CPI at 2.50% vs the Bloomberg survey consensus of 2.5% but with analysts on balance having seen it as a close call with 2.6%.
- Three- and six-month core CPI run rates both at 2.52% annualized suggest little near-term bias to the Y/Y.
- Within the details, core goods inflation looked soft at 0.04% M/M but was driven by much weaker than expected used cars. Indeed, core goods ex used cars inflation of 0.36% M/M was the fastest since early 2023 and we estimate median core goods inflation at 0.44% M/M to match what had been a post-tariff peak of 0.43% M/M back in June albeit after a soft Q4 patch.
- On the flipside, strong supercore CPI at 0.59% M/M was at the high end of a wide range of expectations but that was driven by a very strong increase in airfares that of course won't feed into core PCE inflation.
- Looking at broader trends, the latest uptick in the breadth of core goods inflation was echoed by an estimated 41% of core goods items increasing 3% Y/Y or faster vs 13% a year ago.
- Revisions from new seasonal adjustment factors were small, with headline and core CPI a touch weaker in Dec, slightly stronger over the two-month average across Oct-Nov and then weaker in Sep.
- We see a median estimate of 0.34% M/M for **core PCE** inflation in January (range 0.19-0.49) after 0.37% M/M in December (range 0.25-0.40). The last known print was the 0.16% M/M back in November.
- The wide range for January is compounded by still not having the December report, due Feb 20 with the January report then not until Mar 13. Treatment of legal services also likely played a large role.
- We saw three analyst view changes after the January CPI report, all delaying rate cut expectations, from Jefferies, SEB and SocGen to build on various similar calls after Wednesday's NFP report ([see here](#)).
- The relative resilience in the January nonfarm payrolls report has seen very low odds of a cut at the next FOMC meeting in March (2.5bp of cuts priced). A next 25bp cut is fully priced for July (cumulative 32bp) before a second for October (cumulative 54.5bp).

CPI	Dec	Jan
Core M/M	0.23% (revised from 0.24)	0.295% (cons 0.36)
Headline M/M	0.30% (revised from 0.31%)	0.17% (cons 0.29)
Core Y/Y	2.64%	2.50% (cons 2.54)
Headline Y/Y	2.68%	2.39% (cons 2.48)



CPI Details

Sequential CPI Pressures Softer Than Expected

January brought softer-than-expected CPI data across the board for the most part, though an upside beat in supercore. The Y/Y changes for headline and core CPI came in line/a little softer than expected.

- Headline % M/M was 0.17% vs 0.29% unrounded MNI median, with core at 0.30% below the 0.36% median.
- On the headline side, energy and food were each in softer-than-expected territory M/M, helping drive the downside "miss".
- Note that while the NSA series were not revised in this report (so prior Y/Y readings were unchanged), the annual revision of seasonal factors means December (prior) % M/M readings in this table have been slightly revised.

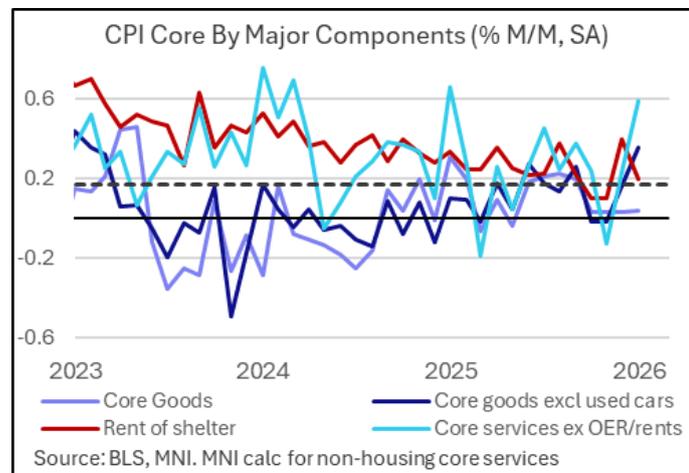
Summary of Key Categories Vs Analyst Consensus (Red=Higher Than Avg Expectation, Green = Lower)

mni	Headline		Core	Headline		Core	Supercore	Food	Energy	gasoline
	NSA Index	NSA Y/Y	NSA Y/Y	SA M/M	SA M/M	M/M	M/M	M/M		
Jan	325.252	2.39	2.50	0.17	0.30	0.59	0.19	-1.47	-3.2	
Jan (median)	325.549	2.48	2.57	0.29	0.36	0.50	0.3	-0.9	-2.4	
Jan (mean)	325.513	2.48	2.54	0.29	0.33	0.54	0.2	-0.8	-2.5	
Bbg consensus	325.514	2.5	2.5	0.3	0.3					
Dec (actual)	324.054	2.68	2.64	0.30	0.23	0.23	0.66	0.34	-0.32	

Used Car CPI Drop Disguises Broader Core Goods Pressures

A look under the hood for the driver of the overall CPI downside suggests that another downside "miss" for core goods prices was entirely responsible - but this is not necessarily indicative of an inflationary reprieve for core goods.

- Core goods CPI printed barely positive for a 2nd consecutive month (+0.04% M/M), driven by used cars coming in notably weaker than anticipated (-1.8%, vs +0.3% expected, -0.9% prior).
- However, that meant that ex-used vehicles core goods CPI was pretty punchy, at 0.36% M/M, up from 0.16% prior for the fastest since early 2023.
- New vehicles were basically a non-factor, rising 0.15% after 0.01%, a 5th consecutive month below 0.2%; household furnishings rose 0.3%, softer than the 0.5% recorded in Dec, and medical care commodities fell 0.1% on a slight downtick in medicinal drug prices.
- Recreational commodities picked up sharply though, to 0.6% after 0.1%, with video/audio products jumping to 2.2% (-0.3% prior) among other gains. Other products that were flat/negative in December showed gains this month, including education/communication commodities, alcoholic beverages, and "other" goods. Apparel was roughly in line but a little on the higher side at 0.3% (0.2% expected, 0.3%).
- On the services front, housing was pretty much right on target with rents at 0.25% M/M (0.27% prior) and OER 0.22% (perhaps a touch lower than expected, and 0.31% prior).
- But supercore jumped to a 1-year high 0.59% M/M from 0.23% prior, higher than the median expectation.
- This came as fares surprisingly accelerated 6.5% M/M, from a downwardly revised 3.8% prior -had been 5.2% before the seasonal adjustment revision which partly accounts for the surprisingly high sequential figure in January. Lodging prices were also revised down (2.2% Dec, had been 2.9%) yet still came in on the soft side in January (-0.1% vs expectations of closer to +1.0%).



- Other jumps of note include communications (+0.5% after -1.9%) and professional medical care (0.8% after 0.4% for the highest since July 2025, though vehicle insurance (-0.4%) was well-behaved after having not received data in this category for the prior 3 months.

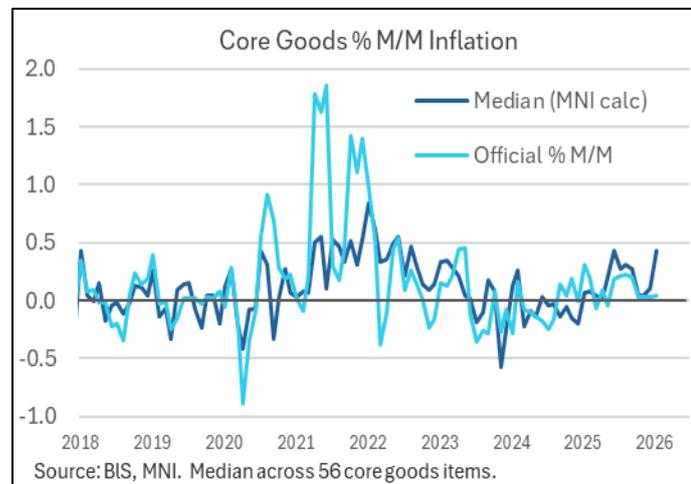
Summary of Key Core Categories Vs Analyst Consensus (Red=Higher Than Avg Expectation, Green = Lower)

mni	Core SA M/M	Supercore Core goods				Core services				
		M/M	M/M	used cars M/M	apparel M/M	OER M/M	rents M/M	lodging M/M	airfares M/M	
Jan	0.295	0.59	0.04	-1.84	0.31	0.39	0.22	0.25	-0.10	6.52
Jan (median)	0.36	0.50	0.33	0.3	0.2	0.40	0.28	0.26	0.9	2.0
Jan (mean)	0.33	0.54	0.27	0.0	0.2	0.41	0.27	0.26	1.2	2.4
Bbg consensus	0.3									
Dec (actual)	0.239	0.23	0.03	-0.87	0.33	0.27	0.31	0.27	2.18	3.76

Underlying Core Goods Inflation Matches Previous Mid-2025 Peak

Our calculation of median core goods inflation accelerated in January to 0.44% M/M, matching the previous peak back in June in what had previously looked like the largest tariff impulse landed in mid-2025. It does however follow a weak Q4 patch with government shutdown-driven distortions.

- Adding to the above, our calculation of median core goods inflation chalked up a firm 0.44% M/M increase.
- This accelerated from a moderate 0.10% M/M in December and an average increase of just 0.04% M/M across Oct/Nov in shutdown-disrupted figures (not least with the later than usual November survey period catching holiday discounts before surprisingly limited bounceback in December).
- In contrast, the actual core goods inflation series increased only 0.04% M/M in January after 0.03% M/M in Dec and an average 0.03% M/M across Oct/Nov. Indeed, whilst core goods was 0.04%, core goods ex used cars was strong at 0.36% M/M.
- Before that Q4 soft patch, our median averaged a solid and quite consistent 0.28% M/M through Q3 (revised down from 0.31% with today's seasonal adjustment revisions) after peaking at 0.43% M/M in June (0.44 pre-revision).
- As such, it suggests some renewed upward pressure in underlying core goods inflation rather than what looked like a previous peak impulse from tariff cost pressures coming back in June, with this latest print suggesting broader usage of start-of-year price resets.
- The 0.44% M/M for median core goods inflation is notable compared to the 0.07% from Jan 2025, 0.12% in Jan 2024 and 0.33% in Jan 2023. Go back further and you're in the peak inflationary period of late 2021/early 2022 when the median saw 0.84% M/M in Jan 2022 whilst the two Januarys before that averaged a more typical 0.08% M/M.
- We compare with previous Januarys on both residual seasonality grounds (although our understanding is that's more related to core services rather than goods) and the fact that whilst we try and choose seasonally adjusted series, many of these detailed categories are only available on a non-seasonally adjusted basis.



Airfares, OER The Largest Category Contributors To Core CPI

Core goods' flat M/M CPI growth translated into almost zero contribution to the overall core print in January, but as noted, used cars were responsible entirely for the acceleration to 0.29% from 0.21%: they dragged down core CPI by 0.06pp, offsetting a 0.07pp rise in other goods categories. See table in image below.

- A similar "swing" lower vs December was in lodging which contributed zero to January core CPI after +0.03pp in December, exceeding the relative pullback between Jan and Dec seen in housing (-0.03pp, from +0.13pp to +0.10pp contribution).
- Airfares however helped ensure a sequential acceleration overall in core services prices, with a 0.07pp contribution (after 0.04pp in Dec), making it the largest single category contributor in January alongside OER, despite being around 1% of the CPI basket vs OER's 25%.
- That's an extreme outlier that should reduce concerns over the overall signals sent from the core services category (and note, PCE takes airfares from the PPI report, not the CPI report).

US: Contributions to % M/M Core CPI

	Dec	Jan	chg
Core CPI	0.23	0.30	0.06
core goods	0.01	0.01	0.00
used cars	-0.03	-0.06	-0.04
new cars	0.00	0.01	0.01
other goods	0.03	0.07	0.03
core services	0.21	0.29	0.09
housing	0.13	0.10	-0.03
OER	0.10	0.07	-0.03
primary rents	0.03	0.02	0.00
lodging	0.03	0.00	-0.04
medical serv	0.03	0.03	0.00
car insurance	NA	0.00	NA
airfares	0.04	0.07	0.03

Source: Bloomberg Finance L.P., BLS, MNI.

Figures don't always add exactly due to rounding

Only Modest CPI Seasonal Adjustment Revisions

- Core CPI at 0.30% M/M in January after 0.23% M/M in Dec (0.24% M/M first reported).
- Minimal revisions from the new seasonal adjustment factors, with headline and core CPI a touch weaker in Dec, slightly stronger over that two-month average across Oct-Nov and then weaker in Sep.
- Within core, services led the downward revision to Dec (-0.02pps to 0.27% M/M) whilst core goods was revised 0.03pps higher but only to 0.03% M/M.
- The new factors appear to have slightly dampened down on Jan residual seasonality patterns, with the Jan 2025 increase trimmed from 0.45% M/M to 0.43% M/M, led by core services being trimmed by 0.05pps for its most across the year.
- See the table below:

CPI Annual Seasonal Adjustment Revisions							US: Contributions to % M/M Core CPI						
% M/M	Headline			Core			% M/M	Core goods			Core services		
	Revised	Prior	chg	Revised	Prior	chg		Revised	Prior	chg	Revised	Prior	chg
Jan 25	0.43	0.47	-0.04	0.43	0.45	-0.02	Jan 25	0.30	0.28	0.02	0.47	0.51	-0.05
Feb 25	0.23	0.22	0.01	0.25	0.23	0.03	Feb 25	0.20	0.22	-0.02	0.29	0.25	0.03
Mar 25	0.03	-0.05	0.08	0.07	0.06	0.01	Mar 25	-0.07	-0.09	0.02	0.11	0.11	0.01
Apr 25	0.16	0.22	-0.06	0.24	0.24	0.00	Apr 25	0.09	0.06	0.03	0.30	0.29	0.01
May 25	0.10	0.08	0.02	0.13	0.13	0.00	May 25	-0.04	-0.04	0.00	0.17	0.17	0.00
Jun 25	0.25	0.29	-0.03	0.23	0.23	0.01	Jun 25	0.19	0.20	-0.01	0.28	0.25	0.02
Jul 25	0.23	0.20	0.03	0.31	0.32	-0.01	Jul 25	0.21	0.21	0.00	0.35	0.36	-0.01
Aug 25	0.35	0.38	-0.03	0.34	0.35	-0.01	Aug 25	0.22	0.28	-0.05	0.32	0.35	-0.03
Sep 25	0.30	0.31	-0.02	0.19	0.23	-0.04	Sep 25	0.20	0.22	-0.02	0.23	0.24	-0.01
Oct 25	0.13	0.10	0.02	0.09	0.08	0.02	Oct 25	0.03	0.03	0.00	0.10	0.08	0.02
Nov 25	0.13	0.10	0.02	0.09	0.08	0.01	Nov 25	0.03	0.03	0.00	0.10	0.08	0.02
Dec 25	0.30	0.31	-0.01	0.23	0.24	-0.01	Dec 25	0.03	0.00	0.03	0.27	0.29	-0.02

Source: BLS, MNI. Colour grading on individual scales

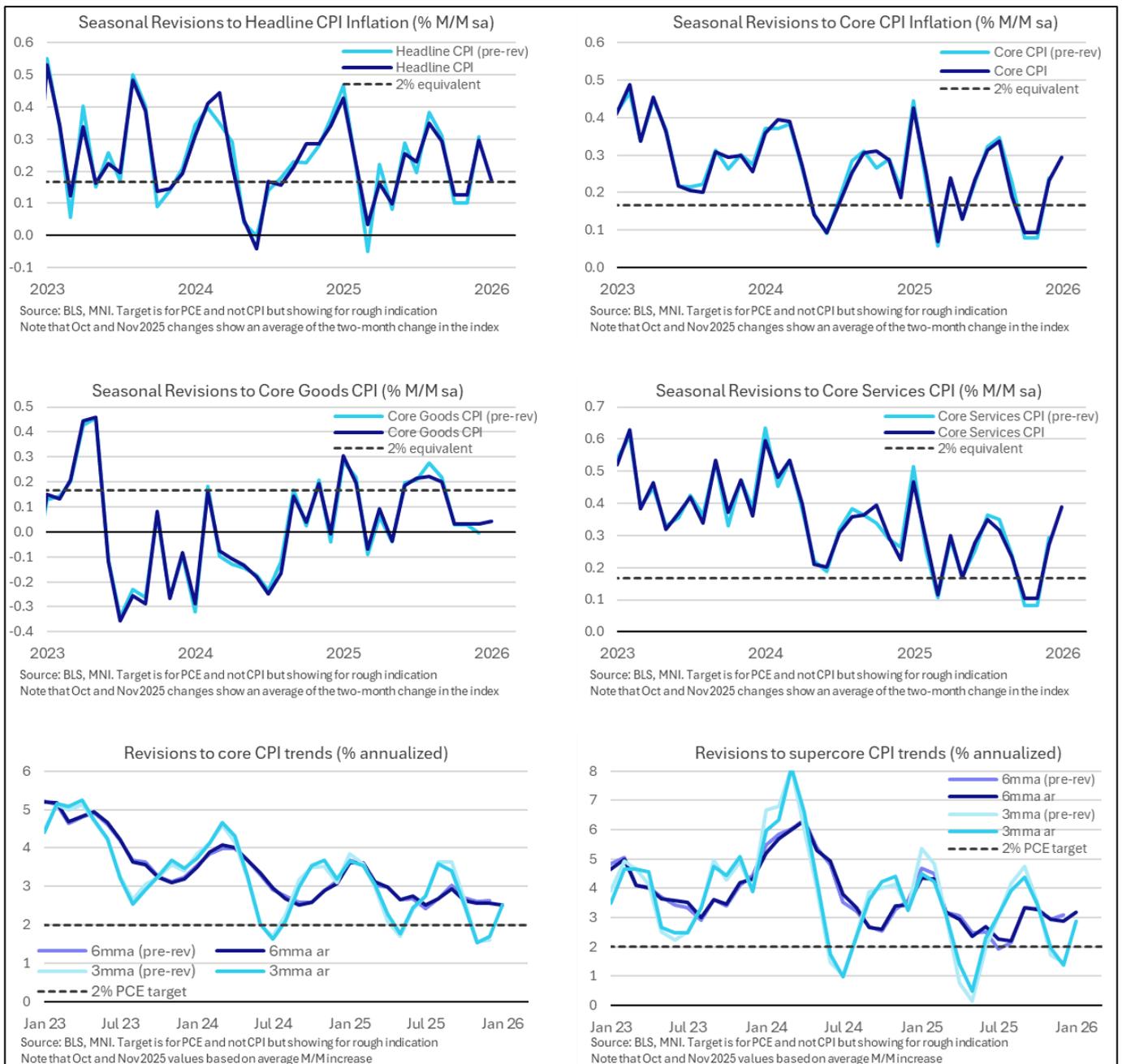
Note: Oct and Nov 2025 M/M values show average of two-month change

Source: BLS, MNI. Colour grading on joint scales

Note: Oct and Nov 2025 M/M values show average of two-month change

Latest CPI Trends: Core CPI Run Rates In Line With 2.5% Y/Y

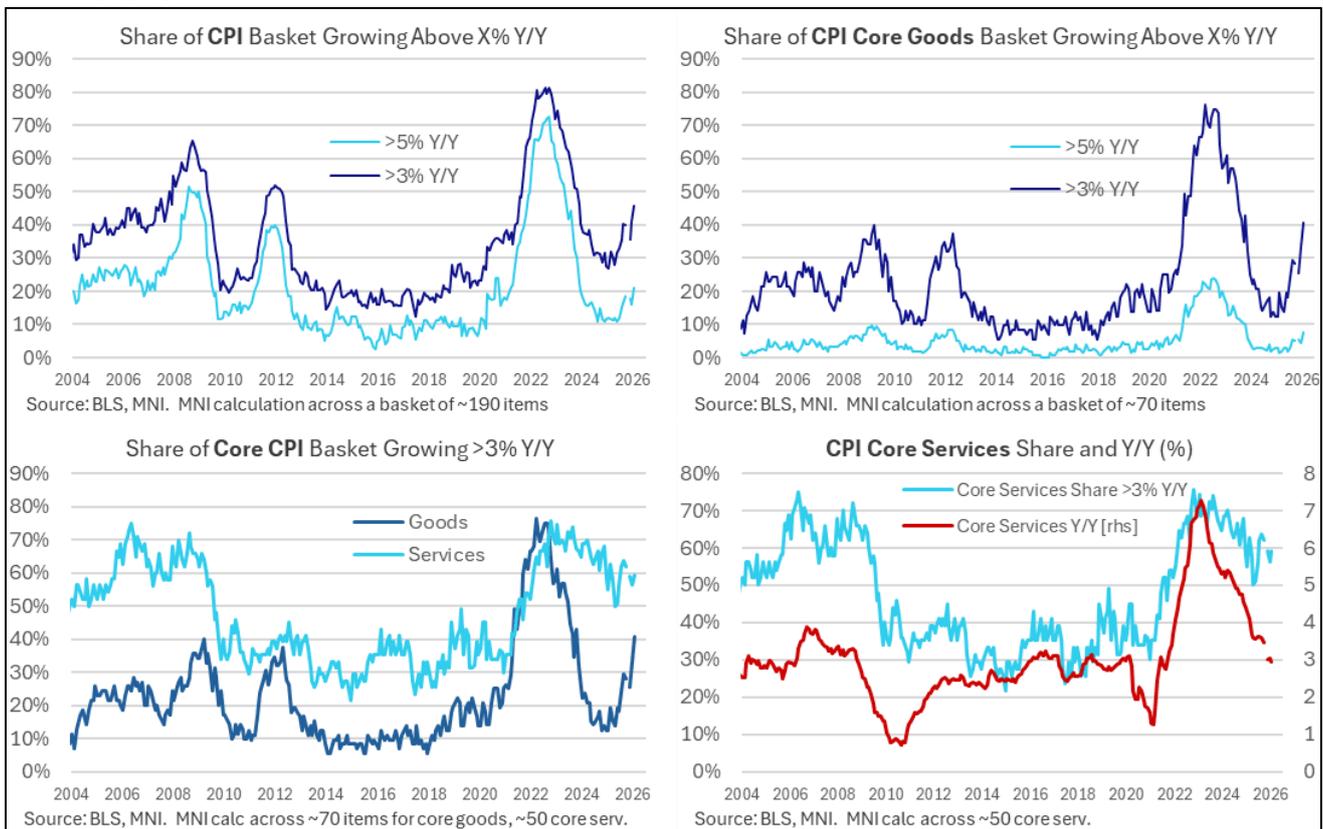
- Core CPI 3-month: 2.52% annualized over the latest three months to January, following 1.70% to December (1.61% first reported) and 3.42% to September (3.64%).
- 6-month: 2.52% annualized over the latest six months to January whilst the run rate to Dec was trimmed slightly from 2.63% to 2.56%.
- Latest run rates are in line with the 2.50% Y/Y in January, as always taken from the NSA series and so unrevised with this update. That has cooled from 2.64% in December for a fresh low since Mar 2021 but of course is still biased lower due to treatment of rent series during the government shutdown.
- Supercore CPI meanwhile stood at 2.88% annualized over the three months to Jan after 1.38% in Dec (1.46% initially) and 4.38% in Sept (vs 4.75%).
- The six-month supercore rate increased to 3.2% annualized from a downward revised 2.9% (3.1% initially) for its highest since October.
- All of the above trend rates are reliant on interpolating the October index level.



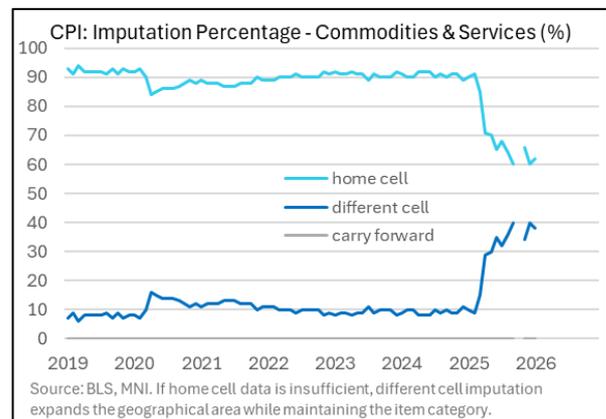
Almost Half Of CPI Basket Increased 3% Y/Y Or Faster In January

Start-of-year price resets appear to have helped see a further increase in the breadth of inflationary pressures within core goods, with an estimated 41% of core goods items rising 3% Y/Y or faster vs 13% a year ago.

- 46% of ~190 items across the CPI basket saw price increases of 3% Y/Y or higher in January, up from 41% in Dec, 36% in Nov and 40% in Sep. It's a fresh high since Nov 2023.
- This share averaged 24% in 2019 or 19% over a longer 2015-19 period.
- Whereas the increase in the share back in December was concentrated in the 3-4% bracket, the January appears driven by those in the >5% bracket, up from 16% to 21% for its highest also since Nov 2023. It started 2025 at 12%.
- Within the core basket, 41% of core goods items increased at least 3% Y/Y in Jan vs 33% in Dec, 25% in Nov and 28% in Sep for a fresh high since Oct 2023. It started 2025 at 13% and averaged 18.5% in 2019 or 12% over 2015-19.
- Core services saw a smaller increase which only offset December's dip, rising back to 59% from 56%. It most recently peaked at 64% in August and compares with historical averages of 38% in 2019 or 34% in 2015-19.



Data Quality At Least Doesn't Deteriorate Further
 From a different cell imputation angle, the main takeaway this month is that it didn't get worse, although the improvement was only modest as it ticked down from 40% to 38%. Budget pressures and a reduced headcount since early last year are taking a clear toll, with this different cell imputation share previously peaking at 15% at the height of pandemic disruption. From a Friends of the BLS update in Nov 2025: "The Bureau has lost close to 25% of its staff through early separations since February. Unfortunately, a significant number of these separations involved senior staff with a host of institutional knowledge which is now lost. One third of BLS leadership positions are currently vacant."



A Particularly Wide Range For Jan Core PCE Estimates, And With December Unusually Still Not Known

- Turning to unrounded core PCE estimates, there’s an unusually wide range for January at this stage, not helped by still not having the December report (released Feb 20 with the January report then not released until Mar 13)
- We see a median 0.34% M/M for core PCE inflation in January (range 0.19-0.49) after 0.37% M/M in December (range 0.25-0.40). The last known print was the 0.16% M/M back in November.
- We suspect at least a good part of this range comes down to the handling of legal services. Comments on it from those at the higher end of the range:
 - Barclays: “This category, which the BLS does not publish, but can be backed out, registered a 12.0% m/m increase in January, which alone is worth about 10bp on core PCE inflation. That said, this tends to be a very volatile category, with very little forward-looking inference.”
 - Morgan Stanley helping explain their upward revision for January core PCE tracking from 0.38% pre-CPI to 0.49% M/M: “The relative strength of PCE versus CPI appears to be driven by a sharp increase in legal services inflation (roughly +11% m/m).”
- Goldman Sachs meanwhile revised their estimates up from 0.30% to 0.40% “partly because the electronics components – which saw large increases – receive more weight in PCE than CPI, while the used cars component – which saw a large decline – receives less weight”.
- Nomura on the other hand revised their core PCE tracking down from 0.48% to 0.41% M/M, “noting that certain CPI components that are inputs into core PCE inflation jumped sharply, moderating the net impact of CPI on core PCE inflation.”

PCE Inflation Unrounded M/M Estimates

	Core (SA)				Comment	Supercore (SA)		Headline (SA)			
	% M/M		% Y/Y			% M/M		% M/M		% Y/Y	
	Dec	Jan	Dec	Jan		Dec	Jan	Dec	Jan	Dec	Jan
Prior (Nov)	0.16		2.79					0.21		2.77	
Average estimate	0.35	0.34						0.39	0.28		
Median estimate	0.37	0.34	3.0	3.0				0.41	0.30	2.91	2.8
TD Securities	0.25	0.19		2.7		0.21			0.12		2.5
Scotiabank		0.24									
JPMorgan	0.37	0.26	3.0	2.9							
Wells Fargo	0.37	0.26	3.0								
BofA		0.30		3.0	Risk of 3.1						
UBS	0.36	0.34		3.0				0.36	0.26		2.8
Deutsche Bank	0.36	0.4		3.0	Risk of 3.1						
Goldman Sachs		0.40		3.05					0.30		2.81
Barclays		0.41		3.1							
Nomura	0.40	0.41	3.01	3.11				0.41	0.33	2.91	2.89
Morgan Stanley	0.39	0.49	3.00	3.17		0.39	0.64	0.41	0.38		2.94
Citi	0.33		2.9			0.30					

Source: Analyst notes, MNI. Sorted on Jan M/M values

Analysts On New Weights For 2026

- **Goldman Sachs:** “We estimate that the new weights will be modestly disinflationary, partially reflecting higher weights in the health insurance, used cars, and communication categories—which we expect to increase by less than overall inflation—and lower weights in the transportation services, education, and personal care components—which we expect to increase by more than overall inflation. On net, the new weights are worth roughly 2bp of downward pressure on our December 2026 year-over-year CPI forecast.”
- **Barclays:** “The annual revisions to category weights and seasonally adjusted indices did not meaningfully alter the inflation narrative, particularly for core CPI. [...] On category weights, the relative importance for new vehicles fell and was almost entirely offset by a higher weight for used cars. Elsewhere, an increase in rents of primary residences compensated for the mark-down in OER category weight.”

Analysts on CPI report

View Changes

Jefferies delayed a cut by one meeting to April vs only ~7.5bp priced: "We had been looking for the Fed to cut rates at the next FOMC meeting in March due to deteriorating labor market conditions and complicit downward trends in the inflation data. However, the January NFP data failed to set off the requisite alarm bells. We noted a number of reasons to be skeptical about the strength of the employment report in our response to the data, but the data is what it is, and it isn't enough to get the hawks on the Committee to change their mind in the next month. We expect that increases in jobless claims in the coming weeks, a softer February report, and continued concern about the labor market in the weeks following will probably be enough to tilt the scales in April, given that the inflation data we are seeing is eroding the hawks' case for keeping policy rates steady."

SEB: "The data was not low enough to change the near-term picture for the Fed, and we no longer expect a March cut. However, inflation trends remain surprisingly benign, and we stick to our view of three cuts in 2026."

SocGen: "Consequently, given a likely strong economy and inflation remaining sticky, it was time to revisit our projection for the Fed funds rate in 2026 as well and align our modal projection with the risk of less policy easing we had flagged earlier after the January FOMC meeting. We now only expect one 25bps rate cut, likely at the June meeting. But continued economic strength also means there's a notable risk that this rate cut could be postponed beyond June."

Broader Views

- **BMO**: "The FOMC may still seek confirmation that inflation is making sustained progress toward the target before resuming rate cuts, but that may simply be a matter of time."
- **BofA**: "We do not think this report materially changes the outlook for the Fed, especially following the strong Jan employment report. The Fed is unlikely to cut rates under Powell's leadership unless the labor market data takes a sharp turn lower and fast. Meanwhile, we continue to pencil in two 25bp cuts in June and July, presumably under Warsh's leadership."
- **Deutsche Bank**: "With inflation well above target for going on five years in a row, policymakers will need more clarity on inflation trends before cutting rates further, especially given that some of the downside risks to the labor market seem to be receding. These data strengthen our view that the Fed will not be able to cut again until later this year."
- **JPMorgan**: "In contrast to the CPI, these [core PCE] estimates suggest a more gradual cooling in core PCE inflation, which in our view is likely to contribute to the Fed remaining on hold for some time. Given the inertia in underlying inflation measures and the continued risk for greater tariff pass-through to lift inflation for a time this year, we would expect the FOMC to be somewhat more responsive to downside surprises in the labor market—which was not the case in the strong January employment report earlier this week—than to near-term softness in inflation."
- **Nomura**: "Elevated PCE inflation forecast will likely keep policymakers vigilant on inflation risks. We maintain our Fed call of no more rate cuts under Chair Powell."
- **Scotia**: "The details will spawn the usual debates, but the fundamental point is that underlying pressure and breadth are too hot to appease the FOMC's hawks."
- **Wells Fargo**: "For the Fed, a March rate cut looks highly unlikely, but the continued gradual pace of disinflation should keep prospects for additional rate cuts alive for later in the year."

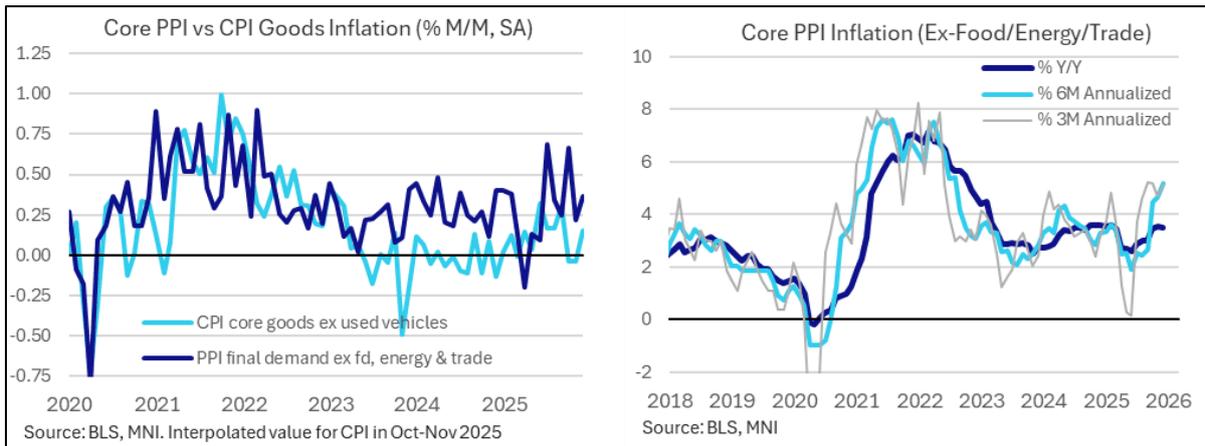
PPI Details

[Note the following PPI comments are only for the December release, published Jan 30, as it's taking the BLS longer to return to its original pre-2025 shutdown release schedule having focused on CPI and payrolls. The January PPI report is now set for Feb 27 (originally Feb 12) and the February report for Mar 18 (originally Mar 12).]

Core PPI Inflation Trends Accelerate Further Into Year-End

Core PPI was a little stronger than expected in December, building on recent strength to leave a Y/Y running at 3.50% and the last six months at 5.2% annualized for the strongest since mid-2022.

- Final demand PPI inflation was easily stronger than expected in December at 0.45% M/M (cons 0.2) after 0.24% M/M, but it was boosted by the volatile trade services category bouncing 1.7% M/M.
- We focus on PPI ex food, energy & trade services, which was also firmer than expected but by a lesser extent at 0.36% M/M (cons 0.3).
- This core CPI metric saw minimal revisions to prior months (a touch lower recently, with offsetting strength further back), leaving months oscillating between solid and strong readings including 0.22% M/M in Nov, 0.67% in Oct, 0.25% in Sep, 0.34% in Aug and 0.68% in Jul.
- It left core PPI inflation running at 3.50% Y/Y (cons 3.4) after a slightly upward revised 3.54% in Nov, with these latest two 3.5% months running at their highest since March.
- Recent trend rates point to further upward momentum in the Y/Y, with the six-month running at 5.2% annualized for its strongest since Aug 2022.
- Core goods CPI inflation has been more subdued recently, with the ex-used vehicles series firming to only 0.16% M/M in December after falling an average -0.04% M/M across Oct-Nov.
- Indeed, Fed Chair Powell said at the FOMC press conference that "a lot" of the tariff impact has already worked its way through the economy.
- However, as we noted the NY Fed's GSCPI pointed to the highest global supply chain pressures in nearly three years in December at 0.5 standard deviations above average.

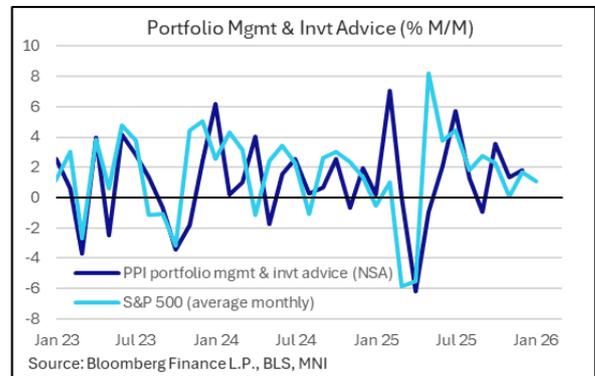
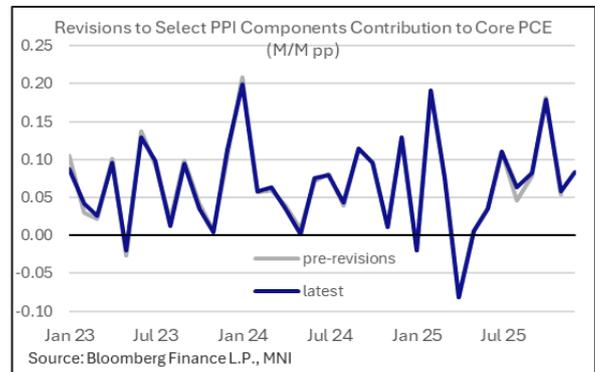
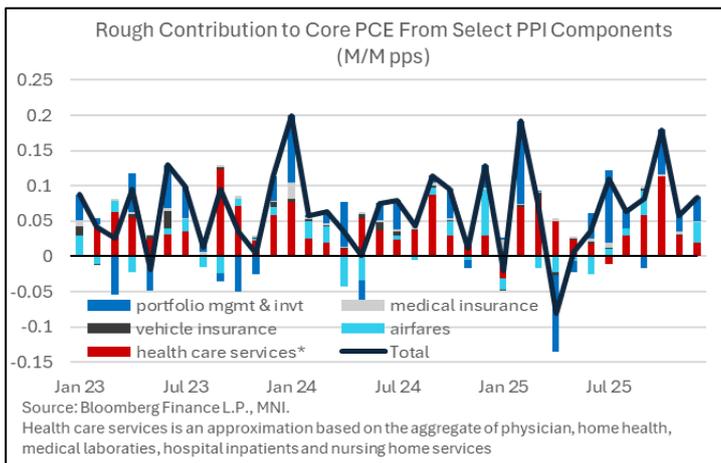


PPI Details Support Already Strong Core PCE Estimates For Dec

PPI details offered a slightly stronger readthrough to core PCE inflation for December than was the case in November. Our best guess is that analysts will continue to expect core PCE inflation around 0.4% M/M in Dec after the 0.16% M/M in Nov (potentially revised up marginally).

- Our crude proxy for PPI contributions to core PCE firmed a little in December, worth 0.08pps to core PCE M/M inflation after a marginally upward revised 0.06pp (vs 0.05pp initially) in Nov.
- The two months broadly consolidate after a particularly strong 0.18pp back in Oct (healthcare and portfolio) having previously averaged 0.07pp in Aug-Sep.
- Latest strength compared to Oct looks to have come from PPI airfares, with the overall series increasing a seasonally adjusted 2.9% M/M after -0.1% whilst the domestic-only series, which specifically feeds into PCE, increased 2.3% after -2.2% in NSA terms.

- Elsewhere, there were on net similar contributions from portfolio management & investment advice (0.03pp after 0.02pp stemming from 1.8% M/M after an unrevised 1.3% M/M) and the variety of health care services (0.02pp after 0.03pp).
- We imagine there won't be a huge change to where already strong estimates for core PCE inflation are centered. An average of four unrounded estimates had been 0.39% M/M in a range of 0.36-0.46% following the CPI release on Jan 13 - Morgan Stanley topped that range with 0.46% but have since revised that down to 0.39% M/M.



Other Recent Inflation Releases

Beige Book: Passthrough Tariff Inflation A Major Theme

Reported inflationary pressures remained fairly steady across Fed districts in the January Beige Book vs November's edition, though this time no districts reported a downtick in prices (New York did in November).

- Eight districts characterized price increases as "moderate", with four calling them "modest / slight".
- There were increasing signs of tariff passthrough apparent in this report, with businesses no longer willing to suffer compressed margins.
- "Looking ahead, firms expect some moderation in price growth, but anticipated prices to remain elevated as they work through increased costs."

Inflation - Nature of reported price increases plus passthrough & tariff considerations:

	Distribution of price increases		Passthrough	Tariffs
	Moderate	Modest		
Jun 4, 2025	Eight characterized as moderate	Two characterized as modest, one steady, one slightly	Contacts that plan to pass along tariff-related costs expect to do so within three months	All District reports indicated that higher tariff rates were putting upward pressure on costs and prices
Jul 16, 2025	Seven characterized as moderate	Four characterized as modest, one eased, one steady	"Many firms" passed on at least a portion of cost increase though some held off due to customer price sensitivity	All Districts report businesses experiencing modest-to-pronounced input cost pressures related to tariffs, especially for raw materials in manufacturing and construction
Sep 3, 2025	Six characterized as moderate	Six characterized as modest	"Some firms" reported passing through entire price increases to customers, others described at least some hesitancy to pass through	"Nearly all districts" reported tariff-related price increases, many contacts seeing as "especially impactful on the prices of inputs"
Oct 15, 2025	Seven characterized as moderate (and one "robust")	Two characterized as modest, one "slightly", one "mostly unchanged"	Passthrough "to final prices varied." "Some firms" kept prices unchanged to maintain market share/ price-sensitive clients; some manufacturing and retail firms "fully passing higher import costs along"	"Tariff-induced input cost increases were reported across many Districts"
Nov 26, 2025	Seven characterized as moderate, none as robust	Four characterized as modest	"The extent of passthrough of higher input costs to customers varied, and depended upon demand, competitive pressures, price sensitivity of consumers, and pushback from clients.	"There were multiple reports of margin compression or firms facing financial strain stemming from tariffs. Prices declined for certain materials, which firms attributed to sluggish demand, deferred tariff implementation, or reduced tariff rates."
Jan 14, 2026	Eight characterized as moderate, none as robust	Four characterized as modest/slight	"Several contacts that initially absorbed tariff-related costs were beginning to pass them on to customers as pre-tariff inventories became depleted or as pressures to preserve margins grew more acute. But contacts in a few industries—like retail and restaurants—were reluctant to pass costs along to price-sensitive customers."	"Cost pressures due to tariffs were a consistent theme across all Districts."

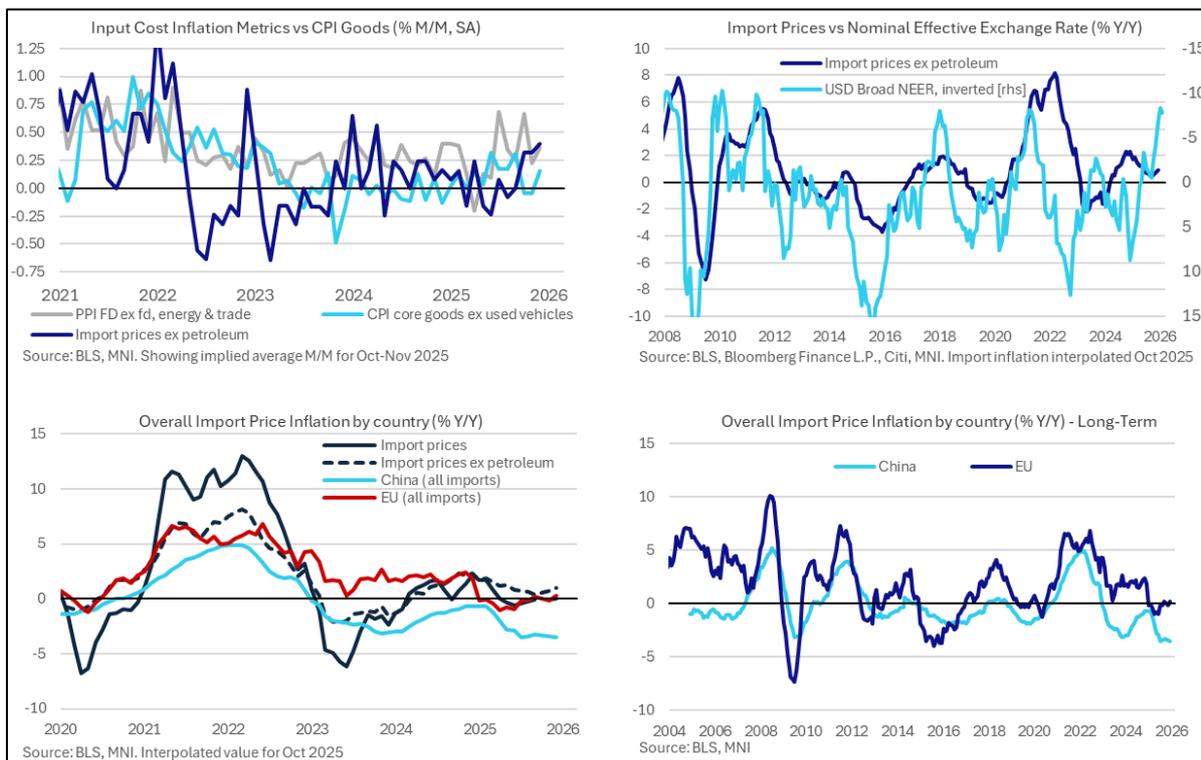
Source: Federal Reserve, MNI. MNI's characterization is derived from the individual Fed reports, not the overall summary

Imported Inflation Ended 2025 On A Stronger Note

Non-oil import prices were stronger than expected in December as they ended the year with some upward price pressures and with potentially more to come judging by US dollar depreciation. Bearing in mind that import prices don't include tariffs, it points to a notably different backdrop than earlier in 2025 when foreign exporters were offering greater concessions in the face of tariffs. China stands out with firmly negative import price inflation whilst import prices from other trading partners have firmed.

- Overall import prices were as expected in December as they increased 0.1% M/M but they hid a stronger underlying picture as import prices ex petroleum increased 0.4% M/M (cons 0.2) for the strongest single month since Apr 2024.

- The latter stat is with a heavy caveat that it's non-seasonally adjusted data and it follows an average 0.3% M/M increase across Oct & Nov but with no way of knowing the split across those two months as a result of the government shutdown.
- This recent period of strength (average of 0.34% M/M in Q4 compares with 0.16% in 4Q24) follows weakness earlier in the year when foreign exporters were offering concessions in the face of US tariffs (average -0.1% M/M in Mar-Jun 2025 vs 0.2% M/M in Mar-Jun 2024).
- This pick-up in import price pressures follows months of stronger PPI reports although passthrough into core goods CPI inflation appears to have been more moderate recently.
- It has seen the Y/Y accelerate further to 1.0% Y/Y for its highest since May and with the US dollar's trade-weighted depreciation very crudely pointing to upside ahead
- China remains a clear standout here though at -3.5% Y/Y, matching July for the lowest in a series starting in 2004.
- Elsewhere, prices of imports from the EU climbed 0.3% Y/Y in December for the highest since Dec 2024 having bottomed at -1.0% Y/Y in April.
- Attempting to strip out oil price effects from major oil producers, prices of manufactured imports from Canada increased 1.5% Y/Y (highest since Dec 2022) and from Mexico increased 2.1% Y/Y (highest since 2.2% in Sept). These USMCA countries have seen the smallest adjustments in trade balances with the US since the start of the second Trump administration.



Another Increase In Small Business Price Plans

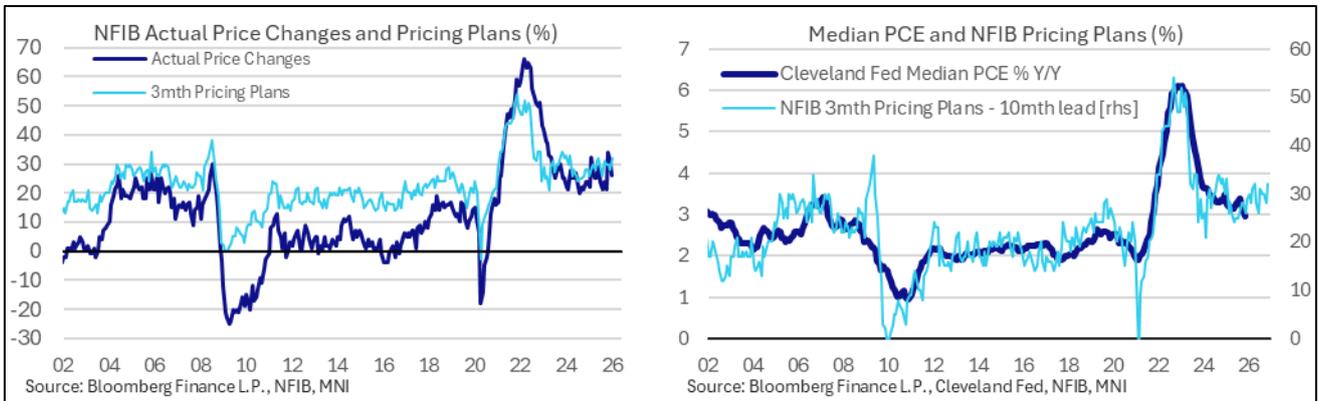
The NFIB small business survey painted a mixed picture with its price components, with the net share who increased prices over the past three months at its lowest since October but those expecting to increase over the next three months at the highest since June and before that early 2024. The latter continues to point to inflation remaining stubbornly above the 2% target.

- Specifically, the net share reporting an increase over the past three months fell from 26% from 30% in December and a recent high of 34% in November. It averaged 11-12 pre-pandemic.
- Going against it, the net share expecting to increase prices over the next three months increased to 32% from 28% in Dec and 30% in Nov.

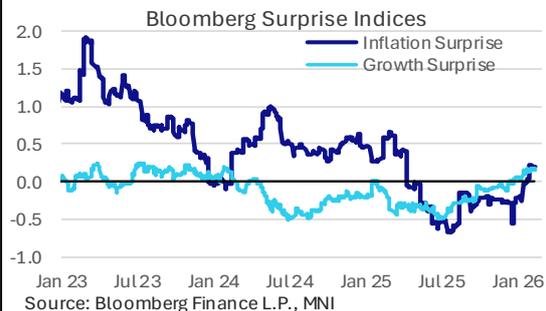
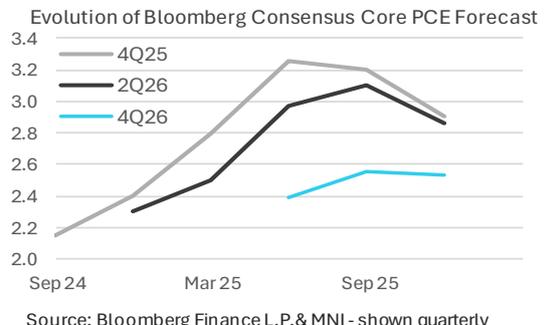
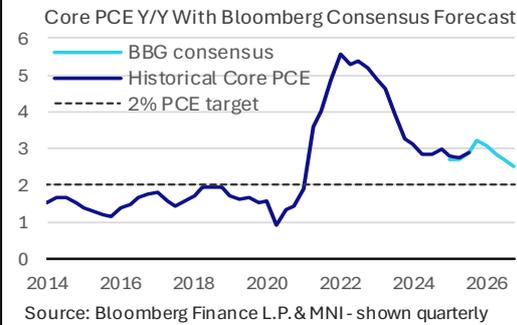
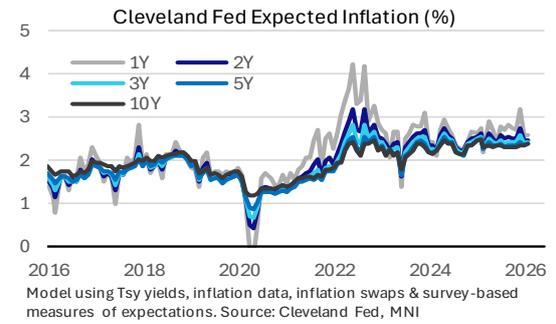
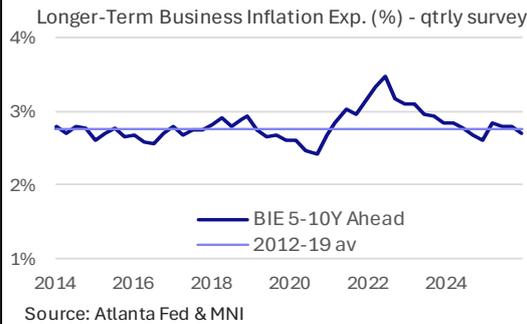
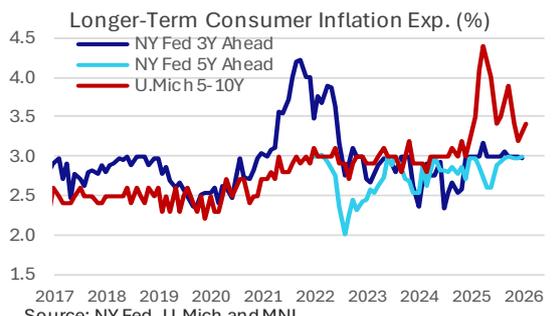
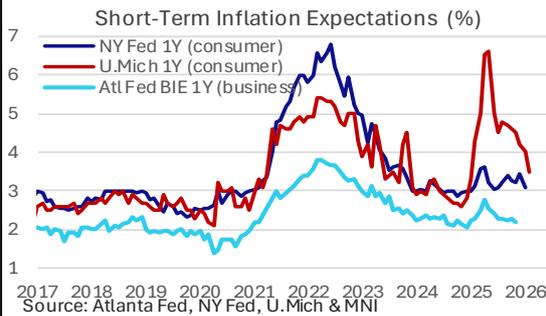
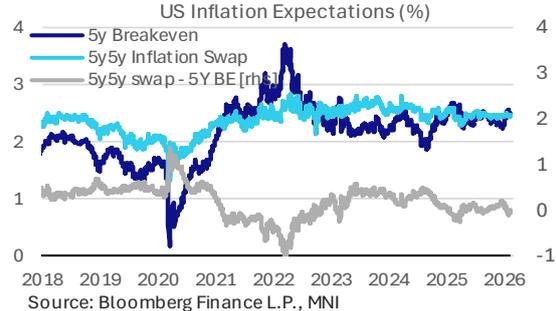
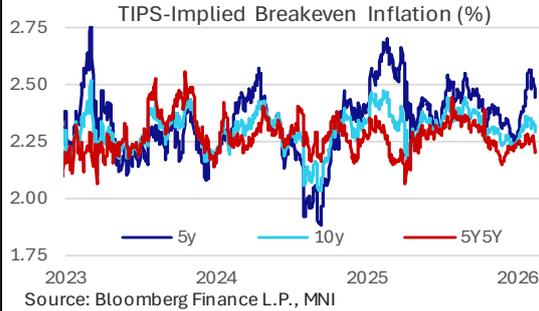
- It ties with the 32% back in June and was last higher at 33% in Jan and Mar 2024. For comparison, this series averaged 21-22% pre-pandemic and recently bottomed at 26% in August.

Price-relevant sections from NFIB member quotes in the press release (full report, link) note insurance costs but also difficulty in passing costs on:

- “Insurance costs- business/liability, and health are having significant increases affecting uncertainty in pricing product.” – Construction, OR
- “Our business has been open since 1968. We are obviously doing something right for our customers. My struggle is passing on the increase in the cost of goods to my customers. That is a daily fight. I have to do it.” - Manufacturing, MI
- “Obtaining timely city/county permits is a nightmare. Takes months if not years for permits. Insurance eats up any profits, it just keeps going up and in our business we have limited sources that will insure us.” - Construction, CA
- “All my overhead has gone up significantly. My ability to raise my prices is negatively impacted by all the increased demands on my client’s “discretionary” income. Less taxes, less regulations, less bureaucracy, are the best help to my business and business prospects. Drastically less government spending and reduction of debt.” – Professional services, KS



Inflation Expectations



MNI Policy Team Insights

MNI INTERVIEW: US Labor Market 'On Pause' Amid AI Uncertainty

By Jean Yung (Feb 13, 2026)

WASHINGTON - The U.S. labor market may face an extended period of weakness as employers delay hiring amid uncertainty over artificial intelligence's impact on productivity, Yongseok Shin, a Washington University in St. Louis economist and research fellow at the St. Louis Fed, told MNI.

Preliminary results of a survey conducted by Shin reveal more older workers using AI tools to upskill, a significant behavioral shift with as-yet unclear implications, he said. Combined with other research showing big drops in entry-level hiring in AI-exposed industries, "we may have a pretty quiet labor market for some time," Shin said in an interview.

A hiring freeze driven less by cyclical factors than by companies waiting to see how AI reshapes work "could be this pause lasting several months or even a year."

That could largely keep Federal Reserve policy on hold until labor dynamics shift significantly, he said, adding the three interest rate cuts at the end of 2025 "helped at the margin" to prevent further labor market weakening.

"They're in a neutral zone now, and they'll probably stay there until they see something else coming," he said.

PERCEPTION MATTERS

The solid January jobs report exceeded what Shin called "very low expectations," though he judges the overall labor market picture to be "a little bit negative," citing downward revisions in hiring over 2025, slowing wage growth and substantial decline in job openings. (See: MNI INTERVIEW: Slide In US Unit Labor Costs Eases Inflation)

Strong demand for health care workers has dominated job creation for months, but Shin cautioned the physically-demanding sector may also be susceptible to AI-related changes. "Anecdotally, AI is helping doctors be more efficient in note-taking, more productive, and perhaps providing quality control in a way that hospitals can hire less experienced nurses."

While definitive proof that AI is displacing workers remains elusive, the perception is driving behavior, Shin said.

"People feel like it's coming, and that's actually slowing down their hiring." Fears of AI-driven job losses underpin the unusually low quits rate, Shin noted. And even if a business found AI less than transformative, "You probably don't want to be the first CEO to go out and say AI seems overblown, now I'm going to hire people."

KNOWLEDGE HOARDING

Shin's latest survey work uncovers a troubling dynamic: experienced workers are aggressively training themselves using AI tools to prepare for career advancement while the imperative for hiring young workers weakens.

"It's that combination of domain knowledge and AI that makes you really productive. Young people are probably very good at AI but don't have the domain knowledge," he said. The risk is that a prolonged hiring suspension creates a lost generation of junior talent.

"My fear is that we've really made the job market difficult for young people."

MNI INTERVIEW: ISM Services Set To Grow With Little Hiring

By Evan Ryser (Feb 4, 2026)

WASHINGTON - U.S. service sector growth will persist this year, supported by AI investments and a fiscal boost from the Trump administration, but that will probably not lead to a lot of job growth and could be accompanied by fresh inflation pressures, Institute for Supply Management services chair Steve Miller told MNI.

"We have a continued positive trend on the services sector in terms of growth. We've been on a direct positive trend since March," Miller said in an interview. "It's actually watching the curve shift up. I think that's a real positive sign."

The January ISM services survey remained at 53.8. The ISM improvement came as the new order index fell 3.4pt to 53.1 and new export orders plunged 9.2pt to 45.0. The employment index eased 1.4pt to 50.3 and the prices index increased 1.5pt to 66.6.

Miller is expecting demand to tick higher, portending faster growth overall for the services PMI. "I'm expecting to see new orders go up another percentage point going into the summer. It seems like there's generally positive commentary."

"We've been an expansion in the services sector for 19 straight months, and over the last two months we actually shifted to a positive trend in the 12-month average for the PMI," he said. (See: MNI INTERVIEW: US Manufacturing Rebound Not Yet A Trend - ISM)

LITTLE HIRING

While the employment outlook has improved, it looks like overall hiring hasn't picked up much, Miller said. "The employment index has continued on a positive trend that started back in the July timeframe, from 46.9 up into the 50s," he said. "It's been a very weak increase but its going in the right direction." A level at 50 represents the breakeven point dividing expansion and contraction.

Miller said there will be jobless growth through the year. "The short answer is, yes, the longer answer is, there's winners and losers, which I think are going to be offsetting each other."

PRICES PERKY

The prices index continued to creep up, now 0.2pt above its 12-month seasonally adjusted average of 66.4, Miller said. "But if you look back just to April when the 'Liberation Day' stuff started, it's flat."

Still, there is a risk of some increased price pressures this year. "If we start injecting money like it seems the Trump administration is on a tear to make sure happens, I think that's a big risk on inflation."

He added that "the last time we saw a string of 60s was back in 2023. If we see that to start accelerating, and we see backlog start to increase, I think we can say there's a supply chain impact that's driving some of the economic behavior. But business activity is very high."

MNI INTERVIEW: Fed To Keep Cutting On Jobs Weakness - Tilley

By Pedro Nicolaci da Costa (Feb 2, 2026)

WASHINGTON - A weak labor market and improving inflation will prompt the Federal Reserve to keep cutting interest rates at its next few meetings, former Philadelphia Fed officer and economic adviser Luke Tilley told MNI.

Tilley said the nomination of Kevin Warsh to take over as Fed chair from Jerome Powell when his term ends in May was a victory for central bank independence, but will not drastically alter the course of monetary policy.

"We don't have inflation pressure, I think the labor market is going to get worse, so we've got three cuts before the middle of the year – two of them I guess would be with Powell," Tilley said in an interview Monday. (See MNI INTERVIEW: Fed's Miran Sees Substantial Rate Cuts This Year)

Warsh would be inclined to continue easing but only if economic data call for it, not because he is somehow beholden to President Donald Trump, Tilley said.

"The president has chosen an independent thinker. Of the candidates that were being considered it's one of the better ones in terms of markets and to preserve Fed independence," said Tilley, now chief economist at Wilmington Trust. "I don't think that he's going to come in and push for lower rates because of the administration. He could do it because he believes that the way things should go."

INSTITUTIONAL CONSTRAINS

Tilley said it remains unclear how much Warsh will be able to overhaul the policy framework on everything from economic modeling and rates policy to the balance sheet given institutional constraints within the Fed.

"It opens up the question of, are we going to get wholesale changes to the way the policy is being done? It's a lot easier to think and speak outside the box when you are outside of the box. When, when you get there, it's much harder to push and implement that change," Tilley said. (See MNI POLICY: Regional Fed Banks Could Face Revamp Under Warsh)

"It is a committee and there's a very large, entrenched research staff, I think it's lost on the public sometimes how much influence the staff has in terms of guiding policy and the discussion. So I think there could be some larger changes to how policy is carried out over the course of years, but I don't see it being a whiplash moment of, 'oh my goodness, we have this new chair, and everything is going to change right away.'"

That will be true even for balance sheet policy, of which Warsh is a long-time skeptic and critic. "I think that is a tough, uphill climb to make immediate changes to the way that the balance sheet is run," Tilley said.

Warsh has also expressed skepticism about things like forward guidance and the Summary of Economic Projections, which Tilley said could be candidates for medium-term reform.

"I wouldn't be surprised if there is a long-term review into the Fed's monetary policy and you end up getting less communication at some point than you have now," he said, adding this would not come without its own dangers. "If you're going to pull back on communication, you know you could have more market volatility."

MNI INTERVIEW: US Manufacturing Rebound Not Yet A Trend - ISM

By Evan Ryser (Feb 2, 2026)

WASHINGTON - U.S. manufacturing activity is still on shaky ground despite the first month of expansion in a year and a sharp rebound in new orders that could be temporary, Institute for Supply Management manufacturing chair Susan Spence told MNI.

"A fair number of comments said customers are restocking the shelves after the holiday, and then there was a little bit about avoiding the next round of tariff threats and tariff circus," Spence said. "If it really is a replenishment thing and post holiday ordering customer inventory is so low, then maybe what we're going to see is you have this nice uptick but that's it. And it gets weeded down."

The ISM manufacturing chief said that despite the strong January report, she does not have confidence that the PMI will remain above 50 in coming months. "In any other time it would, but it doesn't yet," she said, wanting to see a couple more months of increased demand. "The commentary, the sentiment, and the confidence has been so consistently bad that this report doesn't yet give me confidence."

The ISM manufacturing index increased by 4.7pt to 52.6 in January, well above consensus expectations for a smaller increase, returning to expansionary territory for the first time in 12 months. The composition of the report was strong, with gains in the new orders, production, and employment components.

WEATHERING DISRUPTIONS

Survey respondents' commentary however were somewhat at odds with the improvement in the index. There are positive signs for the start of the year, but they are tempered by indications that January is a reorder month after the holidays, Spence said.

"There's arguments to be made for both sides," she said. But "I am glad we have an underlying strong economy because we're weathering" trade disruptions.

New orders surged 9.7pt to 57.1, the highest since February 2022. Production jumped 5.2pts to 55.9, and the backlog of orders increased 5.8 points to 51.6. The new export orders component increased 3.4pts to 50.2. The prices paid measure increased 0.5pts to 59.0.

The employment subindex rose 3.3pt to 48.1, still in contraction territory. "Companies not hiring, holding with who they have -- that's worrisome, too. Does it mean that we're going to have a huge uptick in the unemployment? I don't think so. But the longer term decisions in these companies to hire more people, that's not yet happening because they're not confident."

Of the six largest manufacturing industries, five expanded in January, said Spence.

MNI: Warsh Credible Pick, Needs To Earn FOMC Support: Ex-Officials

By Jean Yung and Pedro Nicolaci da Costa (Jan 30, 2026)

WASHINGTON - Former Fed officials Friday welcomed the nomination of Kevin Warsh as Federal Reserve Chair, telling MNI he is a seasoned central banker who knows the institution but he will need to work to persuade the FOMC on his policy ideas and earn the institution's trust as a leader.

Warsh's argument that "we can lower interest rates a lot" to help bring down mortgage rates and revive the housing market would be a minority view among current policymakers, while his preference for a smaller Fed balance sheet would require a number of regulatory changes and could end up disrupting market functioning, former officials said.

"Kevin Warsh is an experienced central banker having served as a Fed governor during normal economic times as well as during the Global Financial Crisis," former Cleveland Fed President Loretta Mester told MNI, noting his knowledge of both financial markets and academic debate as a partner and advisor at Duquesne Family Office and Hoover Institution visiting fellow.

"As with any new chair, he will have to establish his credibility and show that he is making monetary policy decisions independently of any political influence and basing those decisions on sound economic reasoning in pursuit of price stability and maximum employment for the American public."

MARKET SAVVY

Former Atlanta Fed President Dennis Lockhart hailed Warsh as "a fine choice," lauding his significant experience as a policymaker during the treacherous financial crisis. Warsh became the youngest person ever to join the central bank, as a Fed governor from 2006 to 2011.

"He is very market savvy and will communicate well with Wall Street. He is an excellent communicator overall and will be adept at translating economic and policy information to diverse audiences," Lockhart told MNI.

His nomination comes against the backdrop of significant pressure from President Donald Trump, who has proclaimed his preference for the Fed to slash interest rates to around 1%, down from the range of 3.5% to 3.75% today.

REFORM AGENDA

In recent months, Warsh has argued the Fed's hesitancy to cut rates has hurt its credibility and led to stagflation. He has criticized the Fed's operating framework, its models and staff. Rather than benefiting Wall Street, the Fed should shrink its balance sheet to "redeploy that money to Main Street so that Main Street can have the strong economy that we're seeing in financial markets" and create room for lower interest rates.

Former policymakers said Warsh was likely to push for these reforms over time. "He has clearly laid out his criticisms of the institution in recent years, and I would expect him to act on them over time," Lockhart said.

However, shrinking the balance sheet significantly may be more problematic.

"It's unclear he is going to get to a smaller balance sheet without disrupting funding markets," Donald Kohn, a former vice chair of the Fed who worked with Warsh during the financial crisis, told MNI. "There are ideas around -- lower liquidity requirements for banks, easier use of the discount window, but I don't think we've heard from Kevin how he would implement this."

Kohn is also not sure how a possible Treasury-Fed accord might look like in practice, which Warsh discussed with MNI back in October. "The Treasury should be in charge of debt management most of the time, with rare overrides

by Fed at the zero lower bound. I don't think this requires an accord but he may have other things in mind," Kohn said. (See: MNI: Warsh Wants Fed Out Of U.S. Treasury's Business)

Unauthorized disclosure, publication, redistribution or further dissemination of this information may result in criminal prosecution or other severe penalties. Any such authorization requires the prior written consent of Market News International. Redistribution of this information, even at the instruction of your employer, may result in personal liability or criminal action unless such redistribution is expressly authorized in writing by Market News International. Violators will be prosecuted. This information has been obtained or derived from sources believed to be reliable, but we make no representation or warranty as to its accuracy or completeness. This is not an offer or solicitation of an offer to buy/sell. Copyright © 2026 Market News International, Inc. All rights reserved.