U.S. Inflation Insight: January 2026

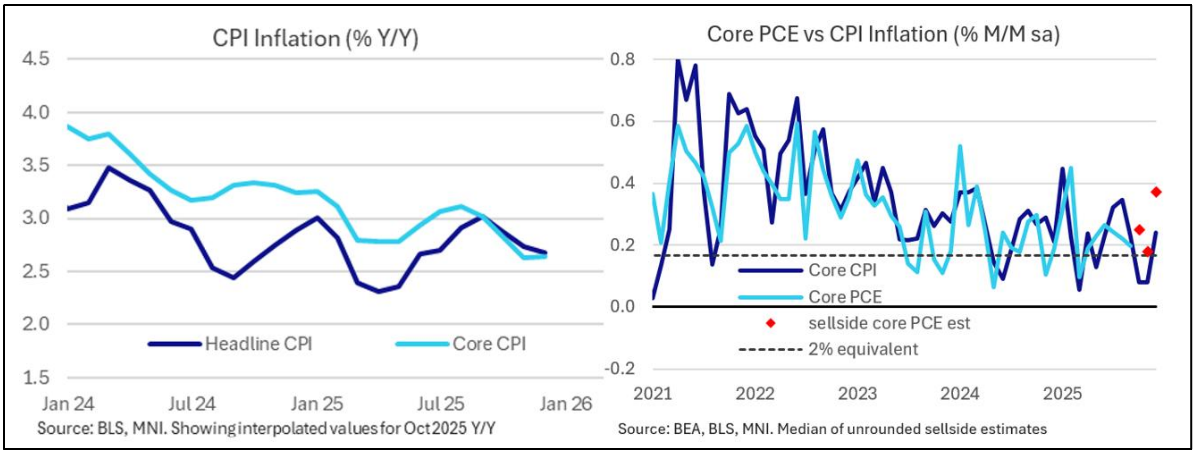
MNI View: Almost Normal

Jan 14, 2026 – By Tim Cooper and Chris Harrison

Executive Summary

CPI	Prior	Dec
Core M/M	0.08% (monthly avg over Oct-Nov)	0.24% (cons 0.35)
Headline Y/Y	0.10% (monthly avg over Oct-Nov)	0.31% (cons 0.37)
Core Y/Y	2.63%	2.64% (cons 2.8)
Headline Y/Y	2.74%	2.68% (cons 2.75)

- December's CPI data was softer than expected in most respects, with relatively limited "payback" from the unusually soft (and heavily distorted) October/November report.
- Stronger-than-expected food prices and energy readings kept headline (0.31% M/M) from "missing" more vs MNI's unrounded consensus (0.37% M/M) than did core which came in at 0.24% M/M (0.35% unrounded consensus).
- Headline Y/Y inflation printed its lowest since June and core CPI Y/Y inflation at joint lows since early 2021. There was relatively little change in Y/Ys for core goods and services compared to last month's surprisingly low November print, though food inflation firmed.
- Within the core categories, the big surprise was that there was zero inflation in core goods prices despite anticipation that there would be "payback" in particular for unusually low holiday sales-related goods prices in November (along with continued expectations of tariff passthrough).
- Core services and overall supercore were also on the soft side though directionally most of the major categories were in order. That included a pickup in housing inflation that was slightly more than had been expected, and while travel-related services jumped as fully anticipated, they wasn't quite as strong as consensus had thought.
- Subsequently-released (and delayed) producer price data for October and November pushed up core PCE forecasts for Q4 – and there will be a positive spread for core PCE over its CPI counterpart - but the FOMC's December projection of 3.0% Y/Y still looks to have downside risks.
- There were plenty of oddities in this CPI report, with several categories registering multi-year/all-time highs and others lows without much explanation, reinforcing the notion that the "noise" from the October/November collection period continues to reverberate.
- By the same token, it will reinforce conviction among FOMC participants that it could be a little longer before there is a cleaner read on underlying inflation dynamics.
- Overall while inflation may not have picked up as strongly toward the end of the year as feared following the imposition of tariffs, Fed officials have signalled that they will be waiting to see data early in the New Year for any signs that businesses are finally setting prices higher to offset input inflation pressure. But most are cautiously optimistic that inflation should come down over the course of the year.
- In the meantime, the data did nothing to alter expectations for a January Fed hold, with more focus at this point on the labor market. FOMC meeting-dated OIS shows just under 1bp of easing for this month, 6.5bp through March, 11bp through April, 24bp through June, 32bp through July and 53bp through year-end.



CPI Details

Elevated Food Prices, Energy Mean Headline "Misses" Less Than Core

Here's how the slightly lower-than-consensus CPI figures came out across headline and core numbers.

- Note stronger-than-expected food prices and energy readings kept headline (0.31% M/M) from "missing" more vs MNI's unrounded consensus (0.37% M/M) than did core which came in at 0.24% M/M (0.35% unrounded consensus).

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

mni	Headline NSA Index	NSA Y/Y	Core NSA Y/Y	Headline SA M/M	Core SA M/M	Supercore M/M	Food M/M	Energy M/M	gasoline M/M
Dec	324.054	2.68	2.64	0.31	0.24	0.29	0.71	0.30	-0.4
Dec (median)	324.295	2.70	2.74	0.35	0.35	0.57	0.39	0.20	-0.5
Dec (mean)	324.256	2.71	2.74	0.34	0.34	0.58	0.37	0.42	-0.5
Bbg consensus	324.267	2.7	2.7	0.3	0.3				
Nov/Oct (actual 2-mo avg chg from Sep)	324.122	2.74	2.63	0.10	0.08	0.03	0.03	0.54	2.96

Both Core Goods And Services Come In On Soft Side, Comms And Cars Weak

Within the core categories, the big surprise was that there was zero inflation in core goods prices despite anticipation that there would be "payback" in particular for unusually low holiday sales-related goods prices in November (along with continued expectations of tariff passthrough).

- Used cars saw a 1.1% fall (-0.8% expected) for the softest month since July 2024, with apparel rising 0.6% (1.6% expected).
- New vehicle prices were flat in a continuation of recent softness.
- Overall core goods ex-used vehicles were up 0.16% M/M which is in the pre-Oct/Nov range (averaged 0.14% between Jan and Sep).
- Core services (0.29% vs 0.39% expected) and overall supercore (0.29% vs 0.57% expected) were also on the soft side though directionally most of the major categories were in order. That includes a pickup in OER and rents that looks a little more than expected, and while travel-related services jumped as expected it wasn't quite as strong as consensus had thought.
- There was a notable pullback in communications (-1.9%, one of the biggest drops in years) prices; some medical care services looked elevated (dental +0.7%, hospital +0.9%) with overall medical care up 0.4%.

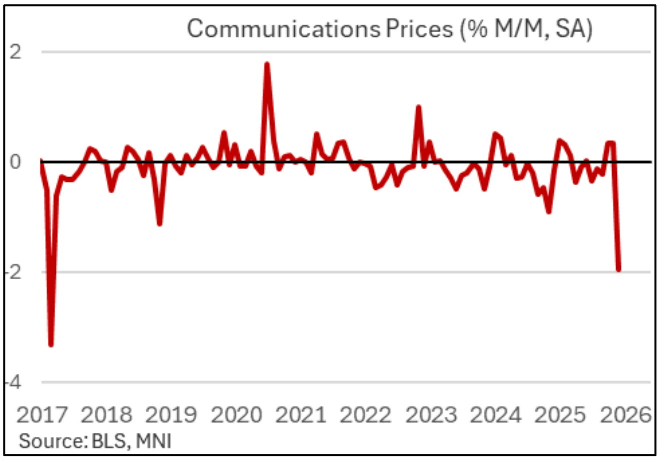
Summary of Key Core Categories Vs Analyst Consensus (Red=Higher Than Avg Expectation, Green = Lower)

mni	Core SA M/M	Supercore M/M	Core goods M/M	used cars M/M	apparel M/M	Core services M/M	OER M/M	rents M/M	lodging M/M	airfares M/M
Dec	0.239	0.29	0.00	-1.11	0.59	0.29	0.31	0.26	2.91	5.19
Dec (median)	0.35	0.57	0.35	-0.75	1.60	0.39	0.25	0.23	3.10	5.77
Dec (mean)	0.34	0.58	0.34	-0.63	1.54	0.40	0.25	0.23	2.73	5.76
Bbg consensus	0.3									
Nov/Oct (actual 2-mo avg chg from Sep)	0.080	0.03	0.03	0.52	-0.36	0.08	0.27	0.13	-0.64	-3.30

Extreme Anomalies Abound Across December CPI Categories

There were plenty of other oddities in this CPI report (aside from the collapse in moving/storage/freight prices noted separately below). Recall that coming into this report we knew that there might be various anomalies stemming from a reversal of November holiday sale discounting for goods products, along with sampling issues from the use of bimonthly metro area surveys (with no October data for comparison due to no survey that month). That's not to mention continued expectation that tariff passthrough would take an upside toll on goods CPI. But the range of significant anomalies on both ends of the table in the December data, and even within categories, has little obvious pattern, making the signal difficult to discern other than that the report overall should be taken with some caution.

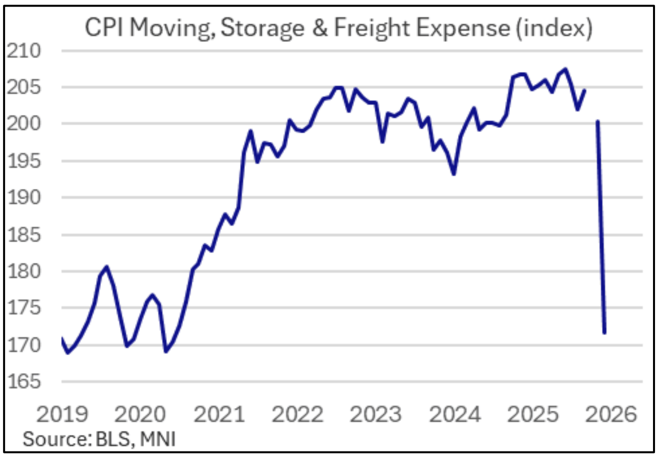
- Recreation services, 3.4% of CPI, was most notable in this respect as they saw their largest ever rise - up 1.8% M/M (and this looked broad based with video game subscription prices up 19.5% M/M). The overall index for recreation (5.2% of CPI) saw its largest ever rise (1.2%). Admissions prices (ie to concerts, sporting events) are 0.7% of CPI and had their largest ever rise (3.6% M/M), helping boost the recreation category overall.
- We also took note of Motor vehicle maintenance and repair - which makes up 1% of CPI - print the lowest ever at-1.3%.
- And Wireless telephone services (1.2% of CPI) posted its lowest print since March 2017, -3.3% M/M. That meant overall communications saw the biggest drop (-1.9%) since 2017.



- Goods were mixed. Overall appliances CPI saw the smallest ever print: -4.3% M/M (0.2% of CPI) with / "other" appliances -5.2% a record lows.
- But "Other household equipment and furnishings" (0.5% of CPI) saw the highest print since October 2004, at +3.0%.
- Also seeing record rises in goods were non-prescription drugs - 0.4% of CPI - up +1.8%, while computer software and accessories - negligible in CPI - saw a record (+7.0%)

Freight CPI Tumbles In Dec But Relatively Small Impact On Core CPI

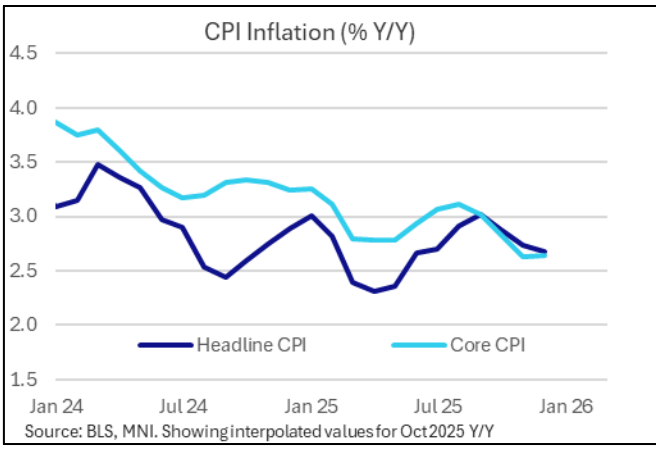
- Well within the CPI details, “moving, storage, freight expense” looks particularly suspect in a report where data quality/methodology is acutely in focus.
- It slumped -14.3% M/M on a seasonally adjusted basis after an average monthly decline of -1.0% M/M in the previous two months.
- For context, this dragged -0.02pps from monthly core CPI, which came in at 0.24% M/M vs median unrounded expectations of 0.35% M/M.
- The category sits within household operations, in turn within core services.

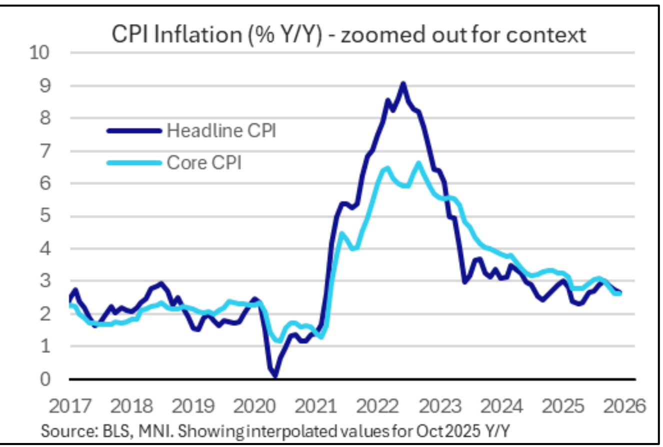


Core Goods & Services Inflation Maintain Y/Y Easing Whilst Food Bounces

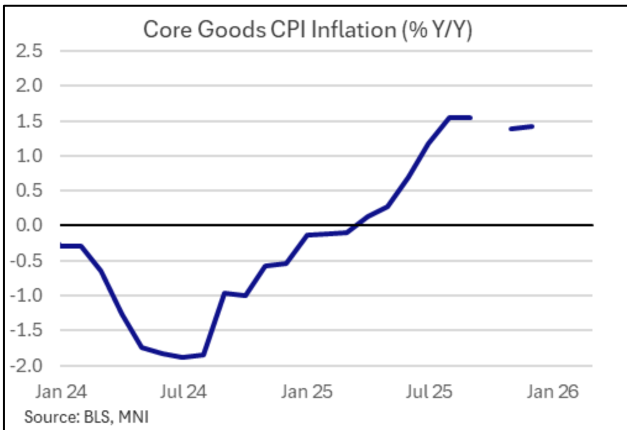
There are multiple unusually large monthly swings in the December CPI report that warrant close inspection and caution, but at face value it leaves headline Y/Y inflation at its lowest since June and core CPI Y/Y inflation at joint lows since early 2021. There was relatively little change in Y/Ys for core goods and services compared to last month's surprisingly low November print, whilst food inflation firmed.

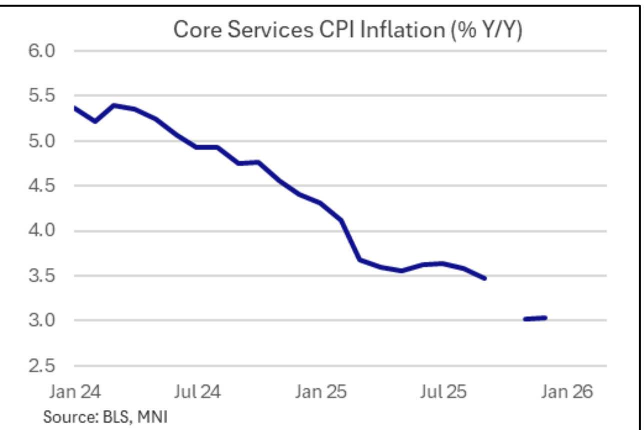
- Headline CPI inflation was softer than expected in December at 2.68% Y/Y (MNI cons 2.75) as it eased further after 2.74% in Nov and 3.01% in Sep.
- It's the softest headline inflation rate since June.
- Core CPI inflation saw a larger downward surprise at 2.64% Y/Y (MNI cons 2.8) as it failed to bounce from the 2.63% in Nov after 3.02% in Sep.
- These are the softest core CPI Y/Y rates since Mar 2021.

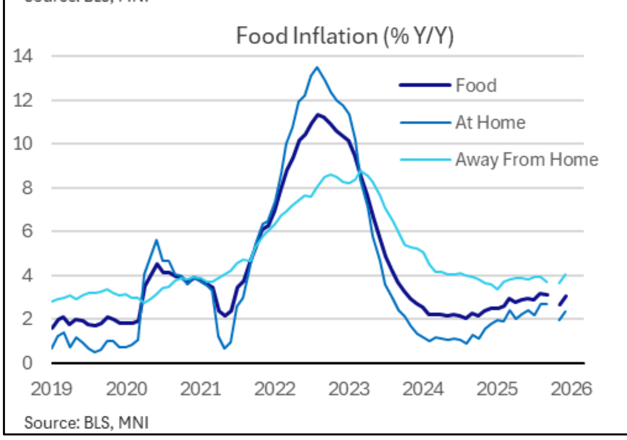


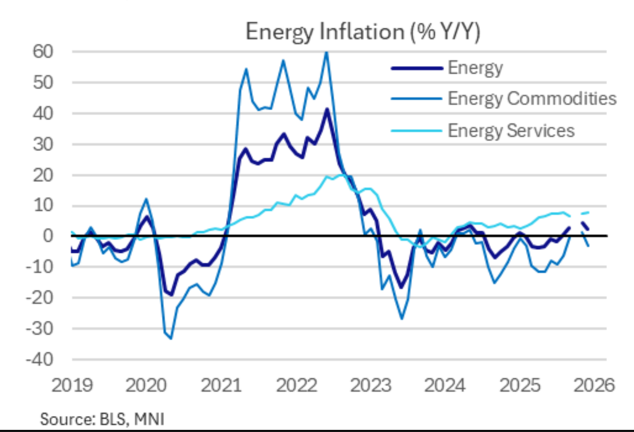


- The unchanged pace compared to a month ago was seen in both core goods (1.42% Y/Y after 1.39% in Nov and 1.54% in Sep) and core services (3.03% Y/Y after 3.02% in Nov and 3.47% in Sep, although some of this drop since Sept is artificial and won't be reversed until Apr)
- As noted in our initial look at the monthly details, this smaller miss for headline primarily came from food where prices surged a seasonally adjusted 0.7% M/M vs expectations closer to 0.4%.
- We'll touch more on potential latest drivers of this food strength in due course, but for now, it's seen food inflation accelerate to 3.07% Y/Y after 2.65% in Nov for back close to the 3.11% in Sep. Food at home inflation is at 2.36% Y/Y after 1.94% in Nov and 2.69% in Sep, whilst food away from home (a core PCE input) stood out at 4.07% Y/Y after 3.66% in Nov and 3.73% in Sep for its strongest since mid-2024.
- Energy was closer to expected on monthly basis (0.30% M/M SA, vs median expectations of 0.2% but average expectations of 0.4%) which translated to 2.3% Y/Y in the NSA data after 4.24% in Nov and 2.85% in Sep. Energy commodities are soft at -3.0% Y/Y whilst energy services are strong at 7.7% Y/Y, led by robust piped gas inflation of 10.8% Y/Y.





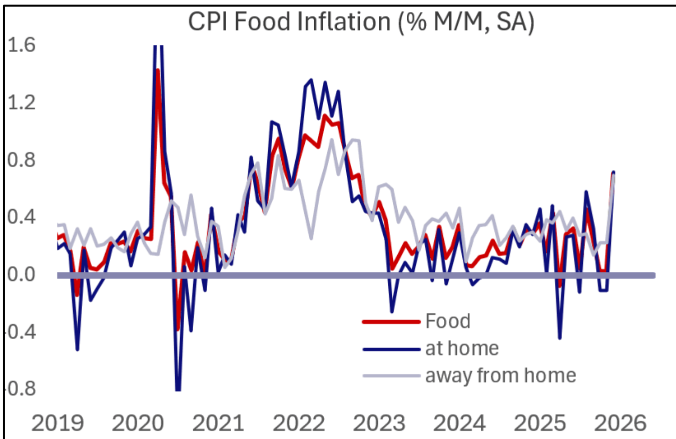




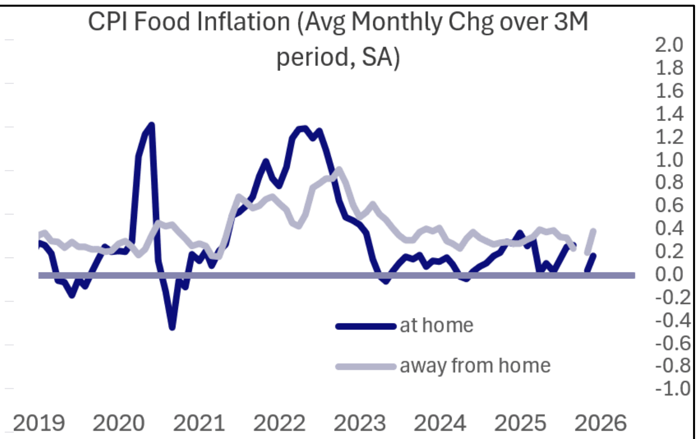
Big Jump In Food Prices Looks Less Dramatic On Longer-Term Basis

One of the bigger stories in the December report was the large jump in food prices: +0.71% M/M, up from basically flat prior for the biggest rise since August 2022. However, the broader perspective is that this is more likely a reversal of under-measurement after October's non-survey and November's discounting period, as opposed to a resurgence in this key headline CPI (and to an extent, core PCE) category.

- Food at home led the increase, up 0.72% (also post-Aug 2022 high) after an apparent deflation in the prior monthly report. This looks suspiciously like a reversal of November holiday discounting, but there is no obvious pattern here (meats/poultry/fish/eggs dropped 0.2% M/M but all other major categories rose sharply including "other food at home" (everything from snacks to soups) at +1.6%.
- Food away from home jumped 0.69% M/M (again, a post-Aug 2022 high) in a pickup from what had already been a pretty "hot" year for this category.
- However when looking at the indices' 3-month changes vs September, the average monthly implied change is 0.26% M/M for the overall food category - which is basically the same as it averaged between January and September (0.25%).
- Food at home (0.17% implied monthly avg between Sep and Dec) and food away from home (0.38%) both look softer when calculated that way though clearly the latter category remains elevated (averaged 0.32% M/M through Jan-Sep).
- The M/M readings should thus be taken cautiously, particularly given the potential upward impact on core PCE for which food away from home CPI is an input.



Source: BLS, MNI.

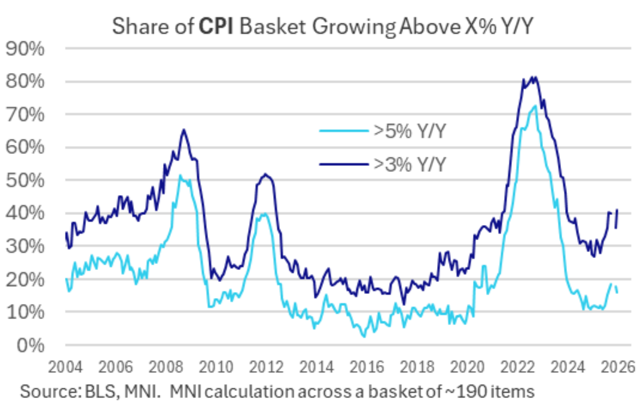


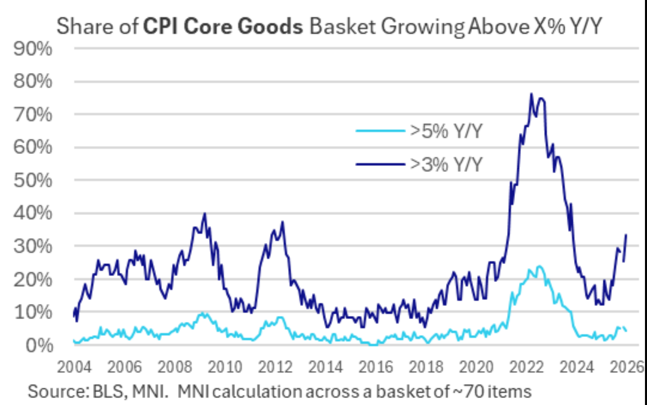
Source: BLS, MNI. October excluded from calculation as no index

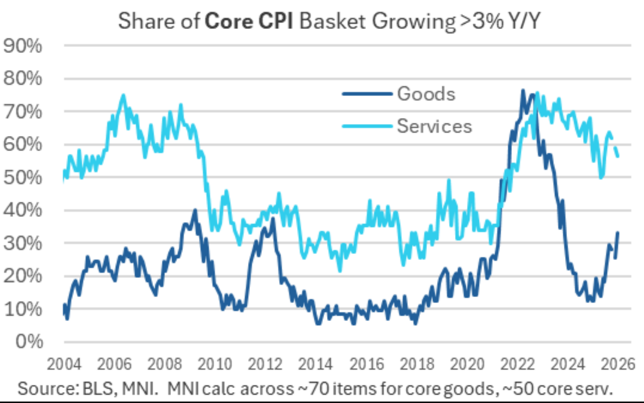
Growing CPI Share In 3-4% Y/Y Bracket But Fewer Items Stronger Still

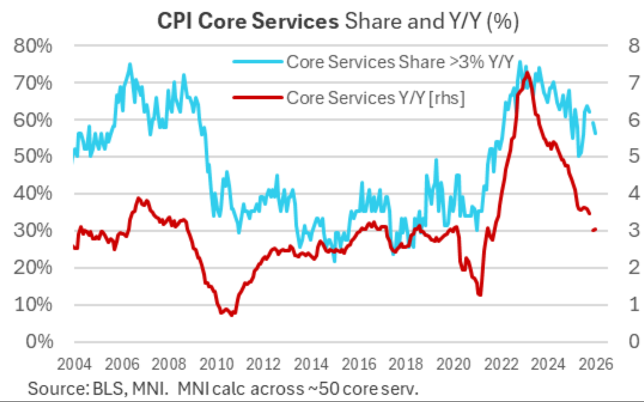
Away from heightened noise in M/M changes in the December CPI report (with various categories seeing largest and smallest ever rises), the breadth of inflation pressures increased in moves led by core goods. These increases compared to recent months were however confined to the 3-4% Y/Y bracket rather than pushing higher still.

- 41% of ~190 items across the CPI basket saw price increases of 3% Y/Y or higher in December, up from 36% in Nov and 40% in Sep. It's technically its highest share since Nov 2023.
- This share averaged 24% in 2019 or 19% over a longer 2015-19 period.
- The latest increase is concentrated in the 3-4% bracket however, with the share of those seeing >4% Y/Y increases essentially unchanged at 24.5%. Similarly, the share growing >5% Y/Y dipped further to 16% after 18% for its lowest since July but still up from 12% at the start of the year.
- Within the core basket, 33% of core goods items increased at least 3% Y/Y in Dec vs 25% in Nov and 28% in Sep for its highest since Oct 2023.
- Core services meanwhile dipped again to 56% from 59% in Nov and 62% in Sep, back to levels seen in June after some renewed summer strength but still above the 50% seen in April prior widespread tariff policies were fully implemented.





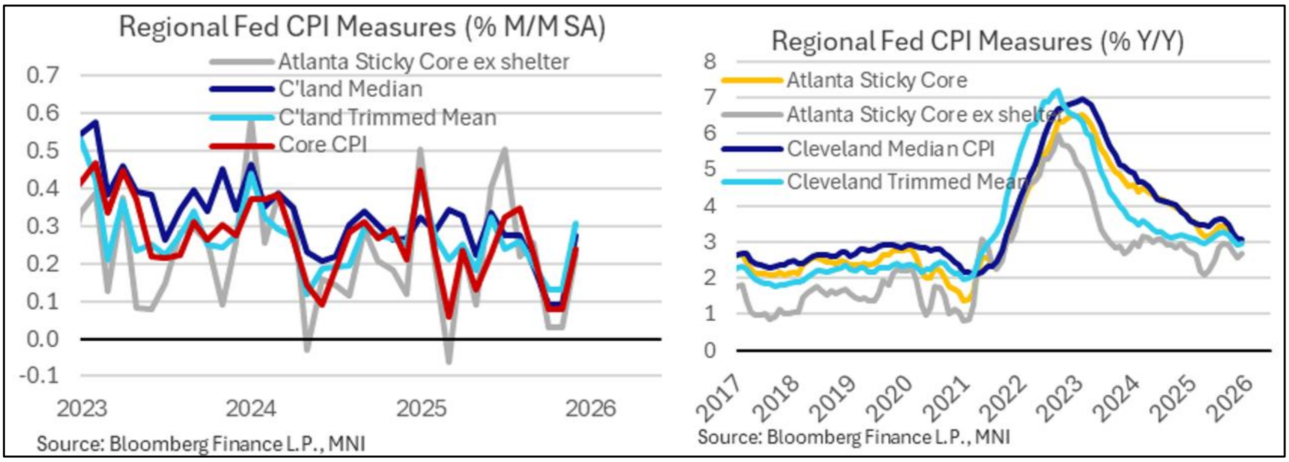




A Pause In The Push Higher Of Alternate CPI Y/Y Metrics

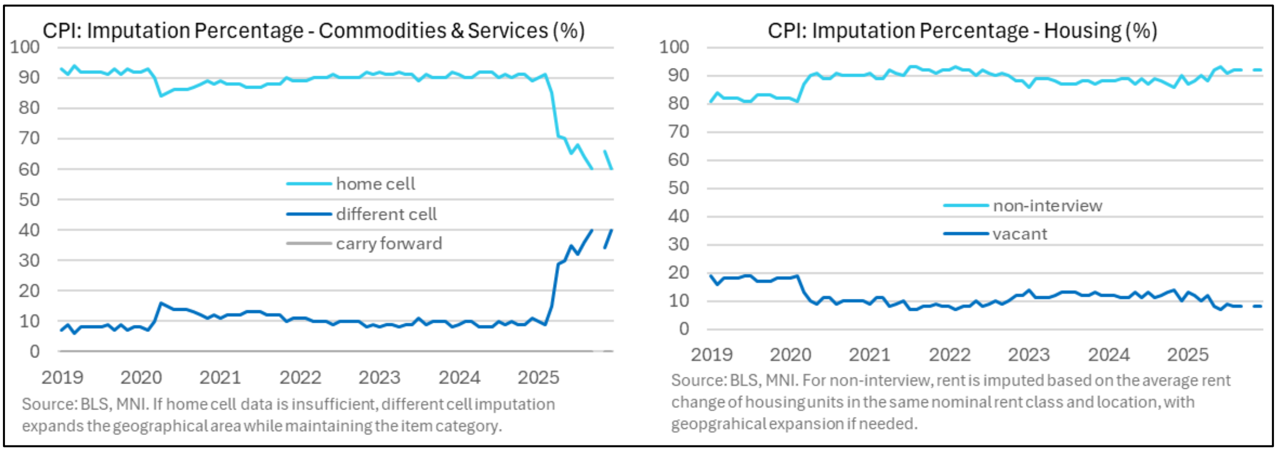
December's post-CPI reads by the Cleveland and Atlanta Feds showed a reversion to more typical median and "sticky" inflation rates after the distorted October/November data. In other words, there was some largely as-expected upside payback from the artificially soft readings in November, though the latest rates appear to be largely in line with the inflation pace seen in mid-year - suggesting only limited further disinflationary progress in breadth metrics at the end of the year.

- The M/M Cleveland Fed median picked up to 0.28% after 0.09% prior, in line with the figure seen in both July and August (and slightly higher than September's 0.20%), leaving the Y/Y rate fairly steady at 3.08%, lowest since Q3 2021. But the 16% trimmed mean figure roared back, up 0.31% M/M for the highest since June, and the Y/Y measure picking up to 2.95% after 2.90% prior.
- Meanwhile the Atlanta Fed's Sticky CPI ex-shelter rate picked up to aa 6-month high 0.29%, as the Y/Y run rate ticked up to a 3-month high 2.87%. Similarly, sticky core CPI ex-shelter rose to a 3-month high 0.22%, with Y/Y up 0.1pp to 2.67%. These paint a softer picture of underlying inflationary pressures on a 6-month annualized rate basis, down to 1.15% for sticky core ex-shelter (lowest since May).
- These analyses are further to MNI's analysis showing that the breadth of inflation pressures increased, led by core goods. 41% of ~190 items across the CPI basket saw price increases of 3% Y/Y or higher in December, up from 36% in Nov and 40% in Sep.



CPI Imputation Shares Reverse Tentative Improvement Seen In November

This December report saw a reversal in the modest improvement in imputation shares seen with the November report relative to September. Different cell imputation rose back to 40% after 34% in Nov for a joint record high with September in data going back to 2019. This is the share of the non-housing survey that had to widen the geographical area when it came to collecting each specific item. This share started the year at 10% before climbing following budget and staff cuts, whilst it previously peaked at 15% in the pandemic when in-person surveys weren't possible. The housing survey imputation shares were similar to prior months however, with a 92% non-interview share of 92% after the same in both Nov and Sep. For these non-interview cases: "rent is imputed by the average change in rent observed for housing units within the same nominal rent class (low, medium, or high rent) within the same location. If this source pool is insufficient, the pool is expanded across geography similar to the method used in the C&S survey."



Fed 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

Analysts on CPI report

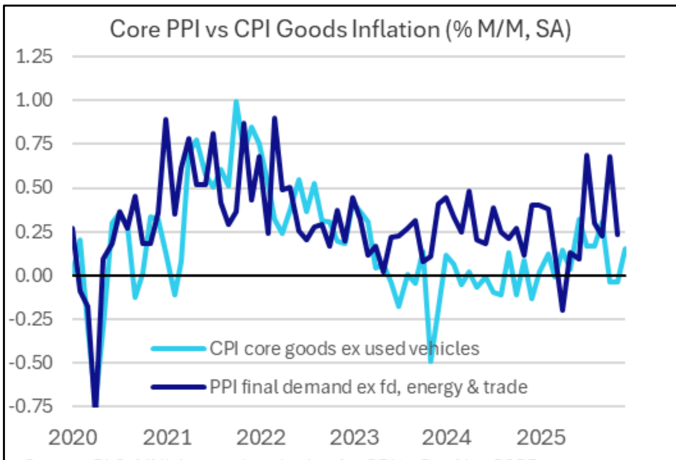
- **BofA:** “Noisy factors, like the 3.3% drop in wireless telephone, can help explain the downside surprise and are likely one-offs. But even if we discount these factors, annual CPI inflation does not appear to have accelerated as much as we had expected to end 2025. One reason for this may be that measured tariff rates have stabilized around 10-12% instead of rising towards our theoretical 15% effective tariff rate. That said, the next few months should be critical in assessing the effect of tariffs on inflation as the January effect could be more pronounced due to higher import costs.”
- **JPMorgan:** “Although these values suggest a softening in inflation, we are cautious not to extrapolate too much from this volatile report. Not only did a number of prices see unusually large swings—both up and down—that suggest distortions may remain (noting the resource constraints facing the post-shutdown BLS), but also initial tracking estimates suggest a firmer core PCE print for December”.
- **TD:** “The robust payback that we were looking for in December could still spill over into the January reading given the recent significant distortions in the collection of the consumer price data. We'd prefer to observe the next CPI report before issuing the "all-clear" sign for the disinflation process that we have been expecting for 2026. On net, this should be read as positive news for the inflation outlook for now.”
- **Wells Fargo:** “Although it is not yet time to pop the champagne in our view, today's CPI report was welcome news. It is true that there are still some shutdown-related data quality concerns, and the primary shelter quirk is probably suppressing the year-over-year core CPI inflation rate by about a tenth or so. Different weightings and source data also suggest somewhat less improvement of late in PCE inflation.”

PPI Details

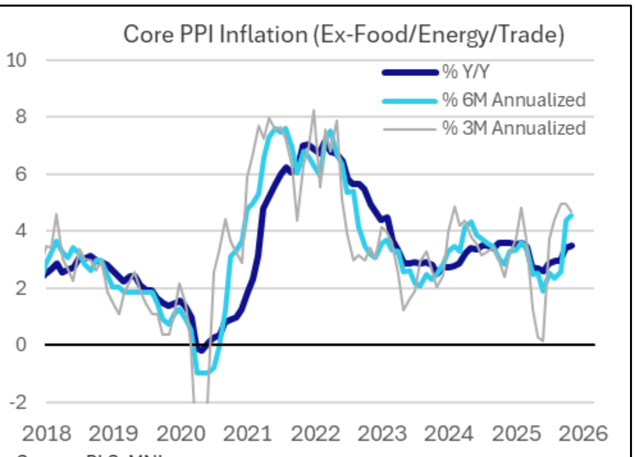
Robust Core PPI Inflation In Two-Month Post-Shutdown Update

The two-month release for PPI inflation in Oct and Nov saw strong core inflation back in October before returning to more typical monthly rates in November. Recent run rates point to a further acceleration in the Y/Y ahead, with the six-month at its strongest since Aug 2022. The BLS notes a long lag in asking for specific pricing details, especially for the October values, which we guess could increase some volatility, but no material impact on response rates.

- PPI final demand increased 0.25% M/M (cons 0.2) in Nov after 0.12% M/M in Oct and a firmly upward revised 0.59% M/M in Sept (0.31 originally reported).
- As such, October beat expectations at 2.95% Y/Y (cons 2.7), although there is a large difference in the analyst sample with 44 estimates for the M/M vs 19 for the Y/Y.
- Core PPI (PPI ex food, energy & trade services) increased 0.23% M/M (cons 0.2) in Nov after a strong 0.68% M/M in Oct. September was also revised up slightly to 0.23% M/M (0.15% originally reported).
- It saw the core PPI Y/Y far stronger than expected in November at 3.50% Y/Y (cons 2.9) after 3.38% in Oct and 2.96% in the previously published data for September. Core PPI has previously peaked at 3.6% Y/Y in late 2024 and early 2025, and prior to that was last stronger in early 2023.
- Recent run rates are hotter at 4.7%/4.6% annualized on a three- and six-month basis. The three-month rate has at least cooled from two months at 5.0% annualized but the six-month is at its strongest since Aug 2022.
- The volatile imputed trade services category explains some of the relative weakness here in the overall PPI category, at -0.8% M/M in both Nov and Oct.
- The recent strength in core PPI M/M inflation stands out against latest readings for CPI core goods - see charts below.
- BLS on the impact of the federal government shutdown on today's release: "The Federal government shutdown in October and November significantly delayed the transmission of Producer Price Index (PPI) price-update requests. October price-update requests, asking for information as of the October 14 pricing date, were sent to PPI survey respondents on November 19. Price-update requests for November data, asking for information as of the November 11 pricing date, were sent to PPI survey respondents on December 3. The response rates for the October and November data reflected in this release are within the normal range, and no modifications to PPI methodology or procedures were necessary."



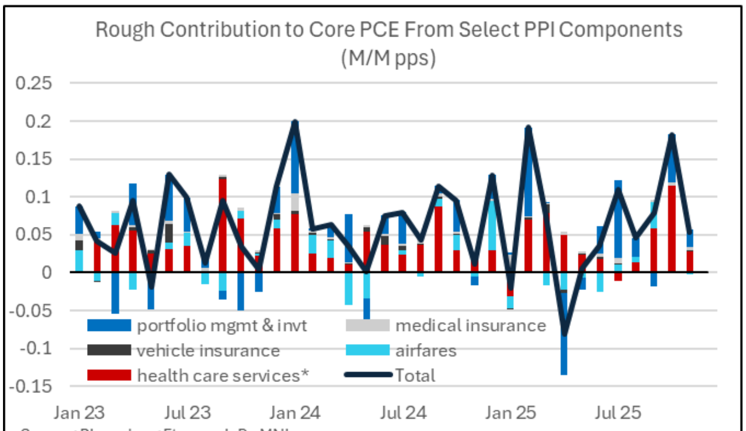
Source: BLS, MNI. Interpolated value for CPI in Oct-Nov 2025



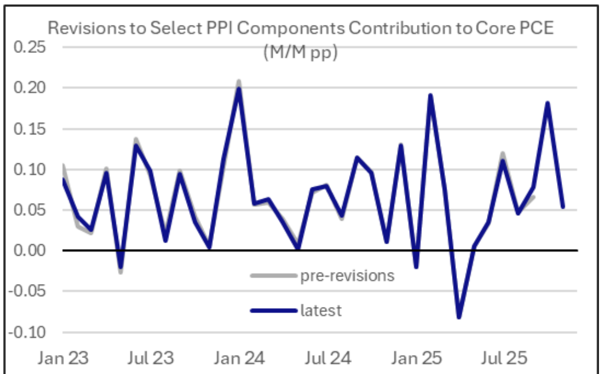
Source: BLS, MNI

PPI Details See Strong Core PCE Contribution In Oct Before Softer Nov

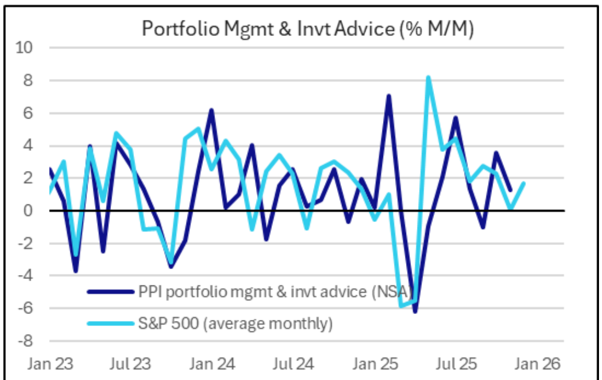
- Our crude proxy for PPI inputs in core PCE shows a modest 0.05pp contribution to M/M inflation in November after one of its strongest in recent years with 0.18pp in October.
- It sees a return of monthly contributions towards the 0.08pp in Sept (revised up from 0.07pp in the last published report) and 0.05pp back in Aug.
- October strength was driven by health care services (0.12pps of which nearly all comes from hospital services rising 1.3% M/M, strongest since Sep 2023) and portfolio management & investment advice (0.06pps from a 3.6% M/M increase).
- We suspect this could have seen an upward revision to core PCE estimates back in Oct/Nov from roughly ~0.15% M/M on average for about double the 0.08% M/M average in core CPI over that period.
- This release shouldn't have materially altered expectations of strong M/M core PCE in December (e.g. GS 0.37, Nomura 0.39), estimates that are unlikely to be firmed up until the Dec PPI report is published on Jan 30. That's two weeks after its original schedule and follows the Jan 28 FOMC decision.



Source: Bloomberg Finance L.P., MNI.
Health care services is an approximation based on the aggregate of physician, home health, medical laboratories, hospital inpatients and nursing home services



Source: Bloomberg Finance L.P., MNI



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

Latest Core PCE Tracking Estimates After PPI Oct-Nov Report

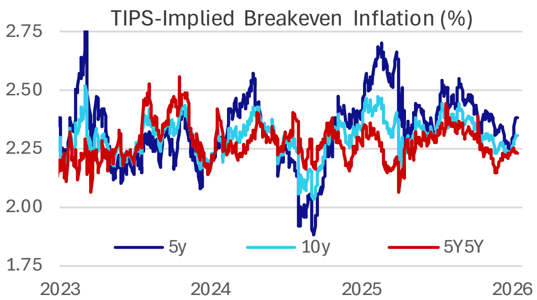
Nomura:

- "We revised up our forecast for core PCE inflation in October and November to 0.278% m-o-m (from 0.142%) and to 0.196% (from 0.150%), respectively."
- They continue to forecast December core PCE inflation of 0.38% M/M.
- They now see core PCE inflation accelerating to 3.1% Y/Y in December vs 2.9% Y/Y estimated prior to today's PPI release.

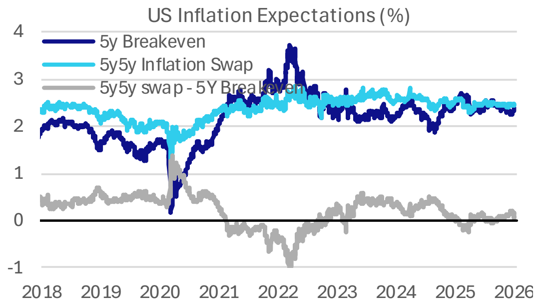
TD Securities:

- "We look for core PCE to be subdued for October and November before picking up in December due to strong services inflation."
- "Our Q4/Q4 core PCE inflation forecast of 2.8% is well below the FOMC's December projection of 3.0%, reflecting the downside surprise in the November CPI after collection issues impacted the report."
- We see supercore PCE accelerating through the end of quarter, which is likely to keep FOMC hawks on guard. The y/y supercore PCE in December 2025 is likely to reach its highest level since February 2025. However, the core PCE market-based measure — currently running at 2.6% y/y — should allay concerns."

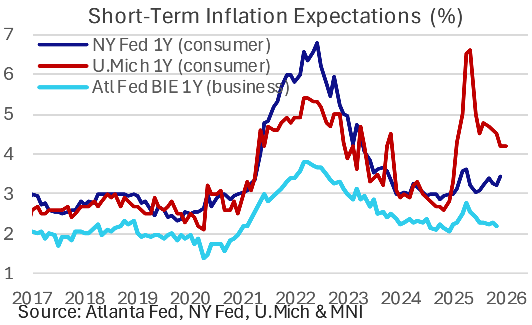
Inflation Expectations



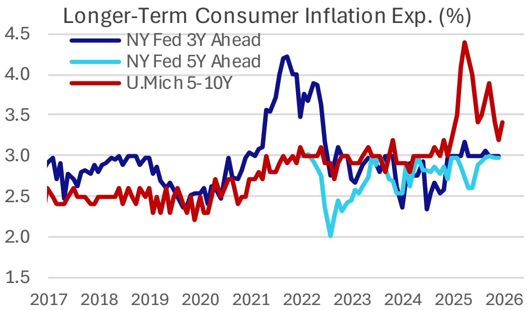
Source: Bloomberg Finance L.P., MNI



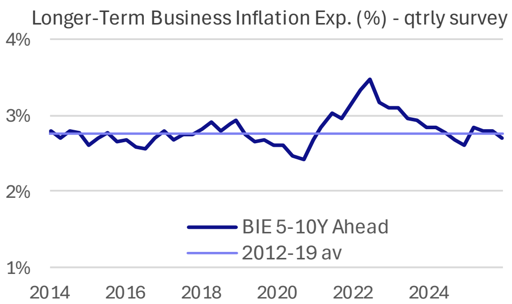
Source: Bloomberg Finance L.P., MNI



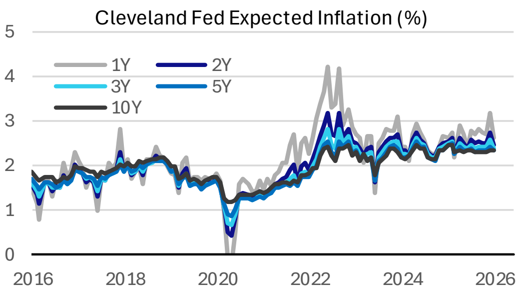
Source: Atlanta Fed, NY Fed, U.Mich & MNI



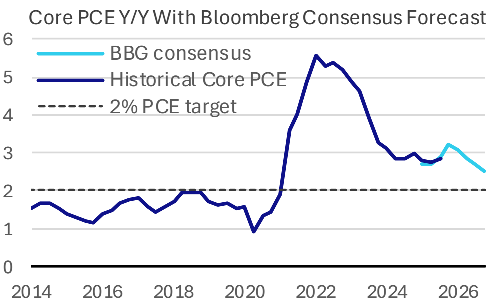
Source: NY Fed, U.Mich and MNI



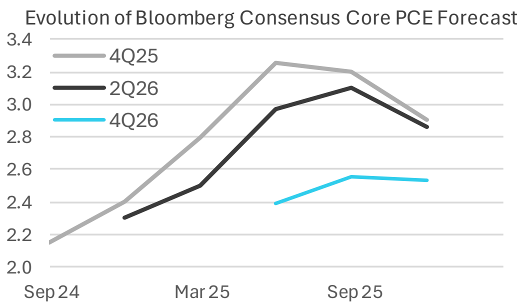
Source: Atlanta Fed & MNI



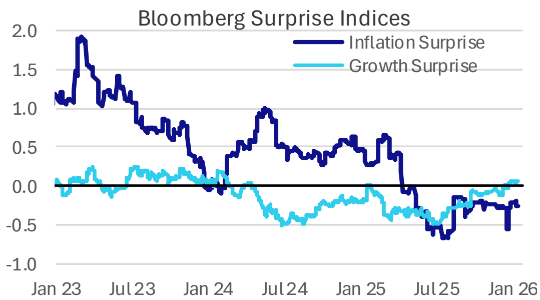
Model using Tsy yields, inflation data, inflation swaps & survey-based measures of expectations. Source: Cleveland Fed, MNI



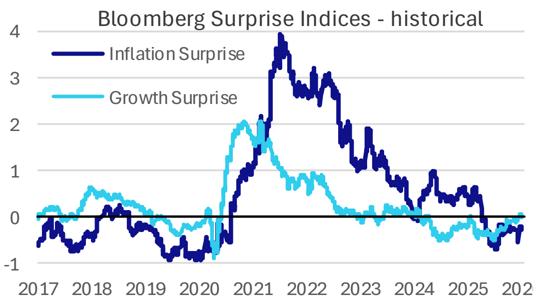
Source: Bloomberg Finance L.P. & MNI - shown quarterly



Source: Bloomberg Finance L.P. & MNI - shown quarterly



Source: Bloomberg Finance L.P., MNI



Source: Bloomberg Finance L.P., MNI

MNI Policy Team Insights

MNI INTERVIEW: Fed Could Cut Around 100BP This Year - Bell

By Pedro Nicolaci da Costa (Jan 12, 2026)

WASHINGTON - The Federal Reserve has ample room to keep cutting interest rates despite a robust economic backdrop because inflation excluding factors like shelter is already near target and the job market is effectively stalled, former IMF economist Gerwin Bell told MNI.

“They have room to cut. Inflation is not as stubborn or high as people say, if we look at it correctly. I don't really see the new inflationary momentum coming,” he said in an interview. “About 100 basis point of cuts this year would be my base case, so we end up around 2.5%, 2.25%." (See MNI INTERVIEW: Fed's Miran Sees Substantial Rate Cuts In 2026)

Speaking on Friday, before Fed Chair Jerome Powell said a criminal investigation into a building renovation was part of a campaign to pressure for lower interest rates, Bell said the latest employment report did not change his view that the labor market has weakened substantially. Employment requires additional support from the monetary authorities as they seek to balance their dual mandate, he said.

“A labor market at zero – that’s basically how I look at it. If you look at the three-month moving average the ADP is barely above zero, the NFP first estimate is -33K, the final one is about 29K,” he said. “The labor market gives me the sense that monetary policy is still restrictive.”

He judged it too soon to tell whether the apparent gap between robust GDP and flaccid job growth is related to some kind of AI-linked productivity boom. “We’ll know in five years. We are ripe for a step-up but it’s too early to call it.”

BEHIND THE CURVE

On the inflation side, Bell argued shelter costs are overstating price pressures, and said some underlying measures were already undershooting the Fed’s 2% target.

He worries the FOMC is being just as slow to recognize this reversal as it was in spotting the post-Covid surge in prices.

“Now they are similarly stuck on the idea that they can’t get inflation below 3%. That’s simply wrong. If you take out parts of inflation where the supply shock really hit Chinese imports, by some measures we are now running below 2% inflation,” said Bell

“The second thing is they are worried about their independence. It doesn’t look good, given the political pressure, for the Fed to admit it has been too slow to cut,” he added.

Bell said Fed Governor Chris Waller is the best placed candidate on the list of possible Trump picks to replace Jerome Powell as chair if the president wants rates to actually go down.

“I would hope that he chooses Waller, because Waller has credibility on this. He has been right for the last four years, both in the up and the down. He would have the credibility also within the committee to be more aggressive in cutting if it’s justified,” he said.

MNI INTERVIEW: Fed's Miran Sees Substantial Rate Cuts In 2026

By Pedro Nicolaci da Costa (Jan 5, 2026)

WASHINGTON - Federal Reserve Board Governor Stephen Miran told MNI on Monday the FOMC needs to cut interest rates substantially this year because underlying inflation is near target and a hesitancy to lower borrowing costs has already unduly damaged the labor market.

Recent weakness in the labor market, which saw the jobless rate increase to a four-year high of 4.6% in November, could have been prevented by more consistent monetary support from the central bank, Miran said in an interview.

"I would say the labor market has been on a trajectory of gradual weakening, in large part because of Federal Reserve policy," he said.

"And with the unemployment rate having crept higher and with various survey measures showing a job market that increasingly favors employers, it seems clear where the trajectory is and, given the inflation outlook, it seems inappropriate for us to try to maintain that trajectory and push it even farther."

CATCHING UP

Miran, who has dissented in favor of larger 50-basis point cuts at all three Fed meetings he's attended thus far, said he penciled in 150 basis points of rate cuts for this year in the December Summary of Economic Projections, up from 100 basis points in his September forecast.

"My previous dot was preconditioned upon the Fed pursuing the right policy, and as long as we keep policy at what I think of as materially too tight, we're reducing my growth expectations in the future," he said. "That requires looser policy now to offset that."

Other reasons for the downward revision were greater damage from the government shutdown and more dovish readings on employment and inflation than he had expected, Miran said. Futures traders are currently pricing in just over two quarter-point cuts for the year.

The way shelter and financial services costs are imputed in traditional inflation measures is significantly overstating price pressures in the economy, Miran said.

"Once you extract from both of these distortions, underlying inflation is running at around 2.3%, which is basically within noise of our target," Miran said. Headline and core CPI in November rose at a 2.7% and 2.6% rate, respectively.

"Because average tenant rents appear finally to have caught up to new tenant rents, and because market rents have been running at a 1% rate for a couple of years, that gives me a lot of confidence that we're going to see CPI rents really start to decelerate in the near future."

UNDERSHOOT RISK

Miran said inflation is making such swift progress that it actually has the potential to undershoot the Fed's 2% target. His expectation for a large looming inflation drag from shelter means that even sticky goods prices would not derail his view.

"I actually don't need a decline in goods prices to hit my inflation forecast. My inflation forecast is driven entirely by things that are not core goods. And so I can tolerate higher inflation from goods for a sustained period of time, in large part because I have such aggressive shelter-inflation marked in my forecast," he said.

“If I end up being right on housing and wrong on tariffs, and then goods inflation does come down as a result of tariffs, we're going to end up pretty substantially undershooting our target as a result of that,” said Miran. “That's a risk that I feel is really being underappreciated by people. We seem to be having a lot of people that are fighting the last war without sort of thinking about the fact that we have two-sided risk looking forward.”

STAYING PUT FOR NOW

Miran, who was appointed to the Board of Governors in September to serve out the remainder of a 14-year term set to end this month, and is currently on leave from his role as chair of President Donald Trump’s Council of Economic Advisers, indicated he intends to stay at the central bank at least until someone is appointed to replace him, possibly beyond.

“Until somebody else is confirmed into my seat, I will continue to sit in my seat. That means what happens depends on whether somebody is nominated for my seat, and then what the timeline for that person's confirmation is, if someone is nominated for my seat,” he said.

“Whether I'll remain on the Federal Reserve if somebody is confirmed into my current seat will depend on a variety of things, including how many seats are open, and whether the president nominates me for one of them, or wants to keep me in this seat. That's not up to me.”

MNI INTERVIEW: Fed In Easing Territory After Rate Cuts - Tracy

By Jean Yung (Dec 19, 2025)

WASHINGTON - U.S. monetary policy has crossed into accommodative territory after three straight rate cuts, further imperilling the Federal Reserve's price stability objective and inflation-fighting credentials, Joe Tracy, former executive vice president and senior adviser to the president at the Dallas Fed, told MNI.

In prioritizing the full employment side of its dual mandate, the central bank is also poised to deliver more cuts that the Trump administration has loudly called for, highlighting the difficulty of maintaining independence when tasked with both monetary and fiscal objectives, Tracy said.

"If Congress aligned the Fed's mandate with that of other major central banks, which is to focus solely on price stability, then there's no way with the Fed missing its inflation target for five years that they could move to accommodative monetary policy," he said.

"Unfortunately, when you ask the central bank to choose between its two mandates in a supply shock, there’s pressure on the administration to encourage the Fed to choose the employment side," he said.

"Maybe the data are signaling a future slowdown, but right now there's really not slack in the labor market. So it's interesting that the Fed is focusing on a potential problem rather than an actual, persistent problem."

EASY POLICY

Policy is no longer restrictive after the December cut, based on estimates of r-star and financial conditions, Tracy said. The real neutral rate has risen to 1% to 2% on expectations of strong productivity growth. Assuming the natural rate of unemployment is 4.5%, Taylor rules suggest policy rates should be roughly a full point higher, he said.

The Chicago Fed’s National Financial Conditions Index has also indicated looser-than-average conditions and is trending looser since late 2022.

"They were on the low end of where they should have been before the cuts. Now they're in accommodative territory," Tracy said.

With another round of stimulus from tax cuts hitting next year, ongoing tariffs and firms delaying price hikes on policy uncertainty, "we could very much be in a situation where inflation gets back to the low 3s over the course of the year," he said. "I don't think it's all behind us." (See: MNI: Fed Biased To Ease With Focus On Jobs - Ex-Officials)

INFLATION TAKES PRIORITY

The FOMC's latest projections have inflation hitting target in 2028. That long timeline puts the Fed's credibility at risk and makes it more challenging to return inflation to target, Tracy said.

"Inflation expectations aren't moving up now, but at some point people will say the Fed is not serious about 2%, otherwise they'd be acting on it. When they come to that view, expectations will rise."

As the central bank faces down fresh tests of its independence in 2026, Congress should legislate to allow the Fed to focus solely on its inflation mandate, as dealing with inflation first and foremost is better for the labor market in the long run, Tracy argued.

"If we look back at the major times when the Fed has been pressured by the administration, it's reasonable to assume that would not have happened at all or to a lesser degree if the Fed were only responsible for inflation," he said.

"It would create cleaner lines of accountability and keeps the Fed out of anything that looks like fiscal policy."

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