

Consumer inflation increases steadily

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WASHINGTON · U.S. consumer prices increased in December, lifted by higher costs for rents and food as some of the distortions related to the government shutdown that had artificially lowered inflation in November unwound, cementing expectations the Federal Reserve would leave interest rates unchanged this month.



But rate cuts this year remain on the table, with the report from the Labor Department on Tuesday showing moderate underlying inflation pressures last month, which economists said suggested the import tariffs pass-through to prices was slowing. Economists were split on whether inflation had peaked.

Nonetheless, expensive food, with prices increasing by the most in more than three years, and rents underscored the affordability crisis facing President Donald Trump, partly blamed by economists on the White House's policies, including sweeping import tariffs.

Trump has made a flurry of proposals to lower the cost of living, including banning institutional investors from buying single-family homes, as well as instructing the Federal Housing Finance Agency – which oversees mortgage finance giants Fannie Mae and Freddie Mac – to purchase \$200 billion of bonds issued by the two companies in a bid to bring down mortgage rates.

High inflation has eroded consumer confidence and Trump's approval ratings and will be a political hot button this year as Trump and his fellow Republicans battle to retain control of Congress. Consumers were likely to care more about higher food and rental costs than the moderate pace of inflation that was cheered by investors.

“Families may not closely track core inflation, but they see grocery prices and restaurant costs immediately,” said Sung Won Sohn, a finance and economics professor at Loyola Marymount University. “A renewed push in food prices is not merely a statistical detail, it can influence public perception, wage negotiations and ultimately economic behavior.”

The Consumer Price Index rose 0.3% last month, the Labor Department's Bureau of Labor Statistics said. A 0.4% increase in the cost of shelter, which includes rents, was the main driver of the rise in the CPI.

Food prices surged 0.7%, the largest gain since October 2022. There were notable increases in the prices of fruits and vegetables as well as dairy products. Beef prices, which have angered many Americans,

~~rose 1.0%, with steaks soaring 3.1%. Steak prices surged 17.8% year-on-year in December, the largest advance in four years. Coffee prices rose 1.9%, reflecting tariffs. But egg prices decreased 8.2%. The cost of food at restaurants and other outlets rose 0.7%, also the most since October 2022. Overall food prices increased 3.1% year-on-year in December. Trump has rolled back some agricultural tariffs to ease food prices. Economists said it would be some time before consumers see the effects.~~

Energy prices increased 0.3% as a 4.4% surge in natural gas prices offset a 0.5% decline in gasoline. Electricity prices eased 0.1%, but climbed 6.7% year-on-year, reflecting increased demand from data centers amid an artificial intelligence investment boom.

~~In the 12 months through December, the CPI advanced 2.7%, matching November's gain. The increase in the CPI was in line with economists' expectations.~~

The BLS estimated the CPI rose 0.2% from September to November. The 43-day shutdown prevented the collection of prices for October, resulting in the BLS using a carry-forward method to impute data, especially for rents, to compile November's CPI report. While prices for November were collected, that was not until the second half of the month when retailers were offering holiday season discounts. The carry-forward imputation method treated October prices as unchanged.

~~Excluding the volatile food and energy components, the CPI increased 0.2% in December. The BLS estimated the so-called core CPI climbed 0.2% from September to November. Economists said distortions from the shutdown remained in the CPI data.~~

Despite the moderate rise in the core CPI, some details of its components were strong. Owners' equivalent rent increased 0.3%, while the cost of hotel and motel rooms jumped 2.9%. Airline fares soared 5.2% and apparel rose 0.6%. Healthcare costs advanced 0.4%. But prices for used cars and trucks dropped 1.1% and the cost of household furnishings and operations eased 0.5%. The cost of wireless telephone services fell 3.3%.

~~The core CPI increased 2.6% year-on-year in December after rising by the same margin in November. Economists estimated that lingering distortions from the shutdown held down the annual CPI rate by at least a tenth of a percentage point. Core inflation could accelerate in January as businesses push through beginning-of-year price increases.~~

"It is worth noting that the core CPI has jumped by 0.4% and more in each of the past four Januaries," said Stephen Stanley, chief U.S. economist at Santander U.S. Capital Markets. "I would imagine that Fed officials are well aware of this history and are reserving judgment on inflation until they have a few more months of inflation data in hand."

The U.S. central bank tracks the Personal Consumption Expenditures Price indexes for its 2% inflation target. Based on the CPI data, economists estimated the core PCE price index increased 0.46% in December, which would translate to a 2.9% rise year-on-year.

The Fed is expected to keep its benchmark overnight interest rate in the 3.50%-3.75% range at its Jan. 27-28 meeting. ~~Note~~

An escalation in tensions between Fed Chair Jerome Powell and Trump has left most economists not expecting a rate cut before Powell's term ends in May. The Trump administration has opened a criminal investigation into Powell, which the Fed chief called a "pretext" to influence rates.

"Policymakers may lean more hawkish to signal institutional independence, while the episode also raises the probability that Powell remains on the board after his term as chair ends in mid-May 2026,

given that his term as a governor runs through January 2028," said Gregory Daco, chief economist at EY-Parthenon.

