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A supermarket in New York. Several companies have said they are reducing some of their grocery prices to entice budget-conscious consumers. LUCÍA VÁZQUEZ FOR WSJ

Inflation Cooled To 2.4% Last Month

Consumers saw lower gasoline prices, but higher costs for hospital care, services

BY MATT GROSSMAN AND PAUL KIERNAN

Annual inflation slowed to 2.4% in January, falling more than economists expected, helped by declining prices for gasoline and used vehicles.

Cooler price increases overall are positive news for the economy, easing concerns that the Trump administration's steep tariffs will lead to broader ongoing inflation. Yet price increases in January for items like computers and washing machines suggest inflation is continuing to weigh on U.S. consumers exhausted by price hikes.

Consumer prices rose 2.4% in January from a year earlier, cooler than 2.7% in December and below the 2.5% economists surveyed by The Wall Street Journal had expected. Core prices, which exclude volatile food and energy items, rose 2.5% from a year earlier, in line with expectations.

Friday's Labor Department reading follows a better-than-expected January jobs report two days earlier, both positive signs for the economy that inject some optimism into the start of the year.

With unemployment low, a somewhat muted rise in prices likely isn't enough on its own to get the Federal Reserve to resume interest-rate cuts because officials might want several more months of evidence that price pressures are moderating and that businesses aren't passing along higher costs from tariffs.

The latest annual number had some help, since a high inflation reading from Janu-

ary 2025 has now aged out of the 12-month window used to calculate the annual rate. Month over month from December, consumer prices in January rose a seasonally adjusted 0.2% and core prices rose 0.3%.

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The White House cheered the report and renewed President Trump's calls for lower interest rates.

"With inflation now low and stable, America's economy is set to turbocharge even further through long-overdue interest rate cuts from the Fed," Kush Desai, deputy White House press secretary, said in a statement.

Although Friday's report was milder than many economists expected, persistent price rises in some important areas could keep inflation from cooling enough to hit the Fed's 2% target, said Subadra Rajappa, head of U.S. research at investment bank Société Générale.

January price increases in several categories of goods— many of them affected by tariffs— suggest that retailers are now trying to pass those costs on to consumers, Rajappa said. Appliances, furniture and new cars all saw sharp price increases in January from December.

"I think everyone believes that tariffs are going to have a transitory effect on inflation, but the question of when those tariff effects fade is going to be more of a second-half-of-the-year story than a first-half-of-the-year story," Rajappa said.

Stock indexes ended Friday little changed. Yields on 2year Treasury notes ticked lower, a sign traders expect slightly lower interest-rate settings from the Fed over the next two years.

Analysts and economists have focused on the rising price of goods as a way to measure tariff impact, but the report also showed higher costs for an array of services, including airline tickets and hospital care. Overall, costs for services rose at their fastest monthly clip in a year, a frustrating data point for economists who have warned that lingering services inflation will be hard to slow.

The unemployment rate, which edged down to 4.3% in January, suggests the labor market remains taut despite a slower pace of hiring over the past year. This can push up services costs, said Chris Low, chief economist at FHN Financial. "Services prices are going to be sticky," he said.

Meanwhile, consumers are getting some relief when fueling up their cars and trucks, and electricity prices also edged slightly lower last month. But natural-gas prices rose, and, overall, people heating their homes with gas or electricity are facing significantly higher prices now than a year ago.

Prices for housing were contained last month, rising 0.2% from December. It will take more consistent relief in housing costs, and a cooling off in services price increases, to keep overall inflation on a downtrend, said Justin Weidner, an economist at Deutsche Bank.

The Fed has a delicate task ahead in the final months of Jerome Powell's eight-year tenure as chair. It has missed its inflation target for about five years, and officials are still trying to strike a careful balance: leaning against inflation without bruising the labor market.

Aggressive interest-rate hikes punctured the blistering price increases that slammed the economy in 2022. But as inflation receded and the job market cooled, the Fed shifted gears, voting through nearly 2 percentage points of rate cuts since the summer of 2024 before pausing in January.

Friday's inflation report was pushed back by two days after the recent partial government shutdown disrupted operations at the Labor Department. The much-longer shutdown this past fall was an unprecedented obstacle for the government's system for collecting price data, which might bend inflation numbers lower for months to come.

Economists have said they believe missing data on housing- cost increases in October has artificially depressed estimates of how much those prices rose last year. That problem doesn't affect morerecent month-over-month inflation numbers.

Inflation has cooled significantly since the annual rate briefly topped 9% in mid-2022. Yet prices remain painfully high for shoppers who have spent years watching costs rise.

Consumers have consistently cited high prices as one of their top concerns in recent surveys. Grievances with inflation on the Biden administration's watch helped pave Trump's path back to the White House.

Affordability is shaping up to be a prime campaign issue for both parties in this year's congressional races.

Many economists expect inflation to ease gradually in 2026, as indications mount that price pressures are abating. Companies such as PepsiCo and General Mills have said they are reducing some of their grocery prices to entice budget-conscious consumers, a sign that demand might now be too tepid for businesses to pass along higher costs.

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