

U.S. Data Review

- CPI: in line with market expectations; core services remain under pressure

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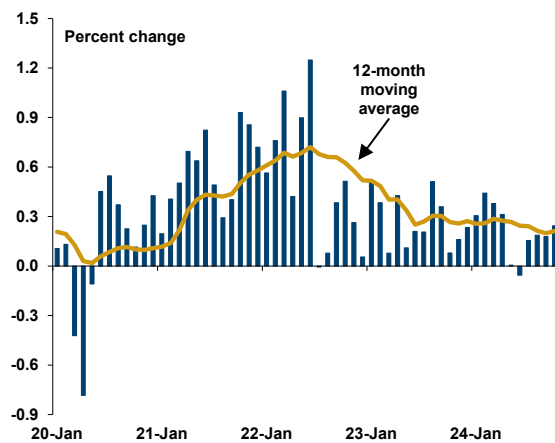
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October CPI

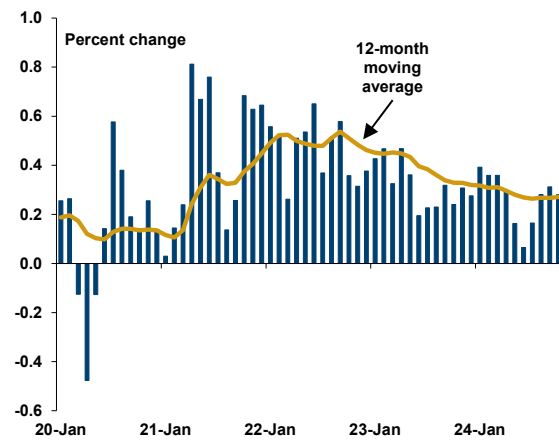
- The CPI rose 0.2 percent in October, matching the Bloomberg median expectation (+0.244 percent with less rounding; chart, below left). Year-over-year, the increase in the headline gauge accelerated to 2.6 percent from 2.4 percent in September, however progress in the past six months has been impressive. On the point, the six-month annualized growth rate for the CPI slowed from 3.7 percent in April to 1.4 percent in October.

Headline CPI



Source: Bureau of Labor Statistics via Haver Analytics

Core CPI

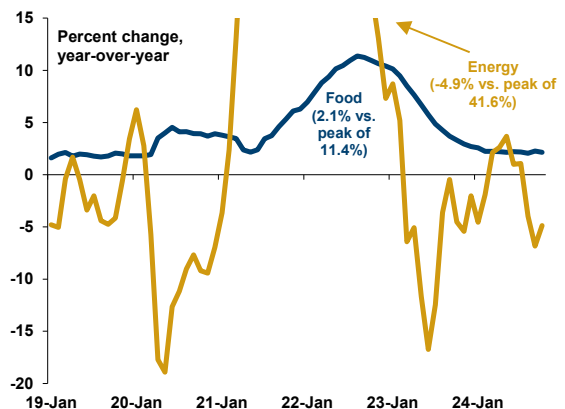


Source: Bureau of Labor Statistics via Haver Analytics

- Energy prices were down slightly in the latest month (-0.021 percent), although the reading rounded to unchanged. Gasoline prices eased 0.9 percent after a plunge of 4.1 percent in the prior month, but charges for electricity and natural gas provided an offset (+1.2 percent and +0.3 percent, respectively). On a year-over-year basis, energy prices fell 4.9 percent. Food prices rose 0.2 percent in October (+0.159 percent with less rounding) after a jump of 0.4 percent in September. With that said, the trend in food inflation has returned to the subdued pre-pandemic trajectory after a bout of price pressure earlier in the expansion (+2.2 percent year-over-year; chart, right).

- Prices excluding food and energy rose 0.3 percent, matching expectations (+0.280 percent with less rounding; chart, above right). Advances in this area have ranged from +0.1 percent to +0.3 percent in the last six months, suggesting an ongoing moderation in core inflation – albeit an uneven one. In this regard, the six-month annualized growth rate in the core CPI of +2.6 percent was essentially unchanged from that in September but well below the +4.0 percent rate in April. With that said, the year-over-year change of +3.3 percent, while down substantially from the September 2022 peak of +6.6 percent, is still inconsistent with the Federal Reserve's price stability mandate and thus requires ongoing vigilance from policymakers (chart, next page).

CPI: Food & Energy

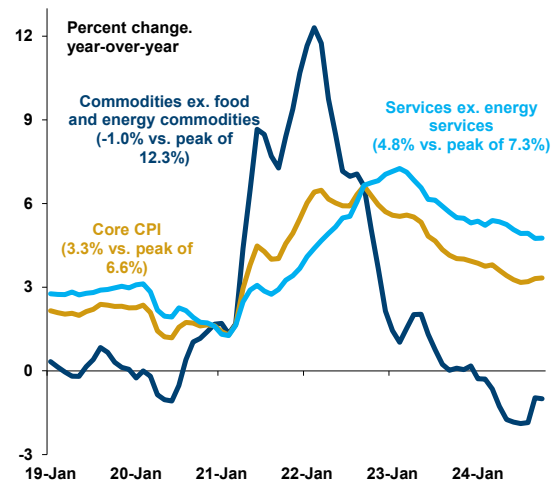


Source: Bureau of Labor Statistics via Haver Analytics

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- With respect to broad areas within core, goods prices were well contained on balance (+0.046 percent; rounding to no change) while prices of services increased at a firm pace that was close to the recent average (+0.350 percent versus an average of +0.358 percent per month in Q3). The latest changes equated to a year-over-year decline of 1.0 percent in the core goods area versus an increase of 4.8 percent in core services – both close to observations in the prior month (chart). Delving into various components, a surge of 2.7 percent in used vehicle prices stood out as a source of pressure in core goods prices (and therefore the overall core CPI), although the shift followed declines in six of the prior nine months of 2024. Conversely, apparel prices fell 1.5 percent (offsetting a jump of 1.1 percent in September). In services excluding energy services, airfares remained under pressure (+3.2 percent in October, the third consecutive gain exceeding three percent), although the price of auto insurance interrupted its brisk upward trend (-0.1 percent in October versus an average of +1.2 percent per month in the first nine months of 2024). Moreover, with respect to key housing-related areas, the rent of primary residence component rose 0.3 percent and owners' equivalent rent of residences advanced 0.4 percent. The year-over-year advance in primary rents eased to 4.6 percent from 4.8 percent in September, while the year-over-year increase in OER remained at 5.2 percent. Year-over-year growth in these areas remains well above pre-pandemic trends in the vicinity of +3.5 percent, although incremental moderation is ongoing.

Decomposition of Core CPI



* Service prices excluding energy services, rent of primary residence, and owners' equivalent rent components.

Source: Bureau of Labor Statistics via Haver Analytics

- In our view, today's inflation data are unlikely to deter the FOMC from cutting the target range for the federal funds rate at the December 17-18 policy meeting. With that said, recent comments by Fed officials indicate that the Committee is likely to proceed carefully, which (in our view) points to a reduction of 25 basis points at their final meeting in 2024. Moreover, the Committee remains reliant on the incoming labor market and inflation data to guide further decisions. Thus, policy is not on a preset course and a high degree of uncertainty surrounds expectations for the rate path in 2025.