

U.S. Data Review

- CPI: broad-based restraint

Michael Moran

Daiwa Capital Markets America
 212-612-6392
michael.moran@us.daiwacm.com

Consumer Prices

Consumer prices were well contained in October, as both the headline CPI and the core component were unchanged, a contrast to the expected increases of 0.1 percent overall and 0.2 percent excluding food and energy. The headline index almost rounded up to 0.1 percent (0.045 percent), as moderate increases in the prices of food (0.187 percent) and energy (0.142 percent) nearly countered the minuscule shift in the core component (0.012 percent). The increase in the food component followed three months of net downward movement, but that easing was only a partial offset to pandemic-related increases in prior months. The level of food prices was high relative to pre-virus standards. Energy prices have increased for five consecutive months, but the advances have offset only a portion of declines in the spring.

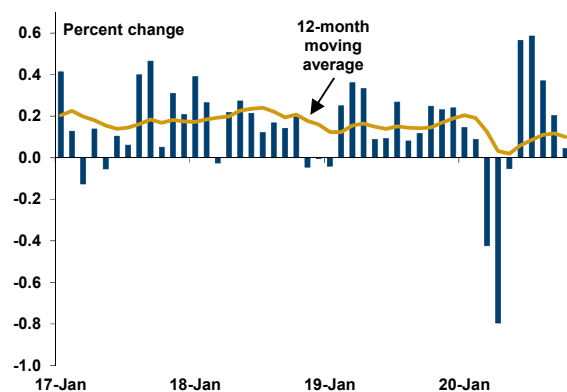
The flat reading on the core component was a notable surprise. Some of the restraint was pandemic-related, as shown by the drop of 1.2 percent in apparel prices (soft demand because of remote working) and the decline of 3.7 percent in the cost of a hotel stay. Hotel fees were even lower than the previous trough in May. The cost of education was unchanged after dipping in the prior three months, as the prevalence of remote learning is restraining tuitions (at least after seasonal adjustment). Rental rates remained subdued with an increase of 0.2 percent (versus the pre-virus norm of 0.3 percent), probably because of a shift in demand away from congested living in apartments and in center cities.

Some of the softness in the CPI reflected cooling in areas that had seen notable upward pressure in prior months. For example, prices of home furnishings and supplies fell 0.5 percent in October, but they had increased at an average pace of 0.6 percent in the prior five months. Prices of used cars fell 0.1 percent, but this dip was inconsequential after average increases of 4.8 percent in the prior three months.

The latest report showed some surprising increases. Air fares jumped 6.3 percent despite limited flying by the public. However, the change occurred from a low level and fares remained well below pre-virus norms. The cost of recreation services rose 0.7 percent, led by a jump of 1.0 percent in admissions, a change that is difficult to explain in light of the pandemic-related drop in demand for concerts, plays, and movies. The prices of new motor vehicles rose 0.4 percent, the sixth consecutive month of upward pressure that has left prices well above pre-virus levels.

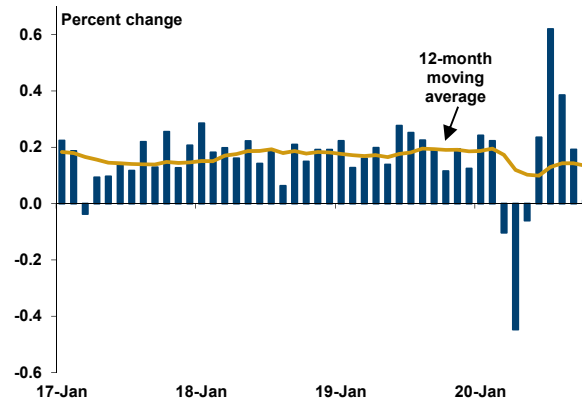
Despite these few pressure points, prices were well restrained in October, which left subdued year-over-year changes (1.2 percent overall, down from 2.5 percent in January; 1.6 percent excluding food and energy, down from 2.4 percent in February).

Headline CPI



Source: Bureau of Labor Statistics via Haver Analytics

Core CPI



Source: Bureau of Labor Statistics via Haver Analytics

This report is issued by Daiwa Securities Group Inc. through its relevant group companies. Daiwa Securities Group Inc. is the global brand name of Daiwa Securities Co. Ltd., Tokyo ("Daiwa Securities") and its subsidiaries worldwide that are authorized to do business within their respective jurisdictions. These include: Daiwa Capital Markets Hong Kong Ltd. (Hong Kong), regulated by the Hong Kong Securities and Futures Commission, Daiwa Capital Markets Europe Limited (London), regulated by the Financial Conduct Authority and a member of the London Stock Exchange, and Daiwa Capital Markets America Inc. (New York), a U.S. brokerdealer registered with the U.S. Securities and Exchange Commission, a futures commission merchant regulated by the U.S. Commodity Futures Trading Commission, and a primary dealer in U.S. government securities. The data contained in this report were taken from statistical services, reports in our possession, and from other sources believed to be reliable. The opinions and estimates expressed are our own, and we make no representation or guarantee either as to accuracy, completeness or as to the existence of other facts or interpretations that might be significant.