

U.S. Data Review

- CPI: latest reading unlikely to derail December rate cut despite sticky core inflation

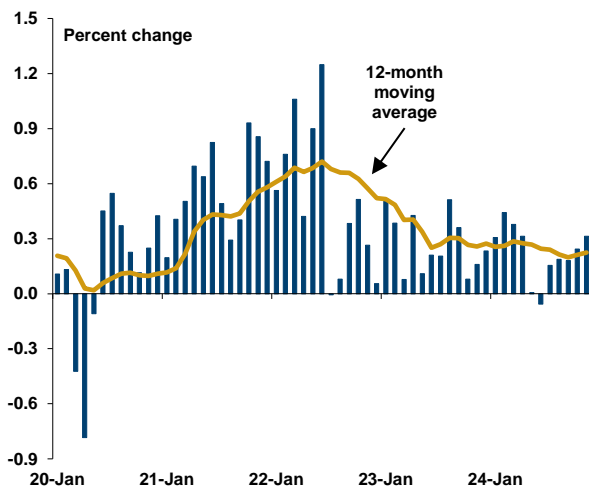
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November CPI

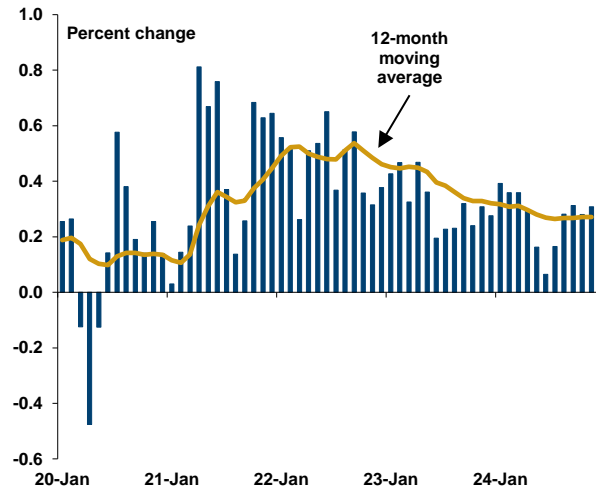
- The CPI increased 0.3 percent in November, matching the Bloomberg median expectation (+0.313 percent with less rounding; chart, below left). The year-over-year advance accelerated to 2.7 percent from 2.6 percent in October. The results for the core component, which also matched the Bloomberg median expectation, were somewhat more concerning. The measure rose 0.3 percent for the fourth consecutive month (+0.308 percent with less rounding; chart, below right), which translated to a year-over-year increase of 3.3 percent – essentially unchanged from results in the prior two months and slightly higher than results in the summer. All in all, the data suggest that progress towards the Federal Reserve’s inflation objective may have stalled.

Headline CPI



Source: Bureau of Labor Statistics via Haver Analytics

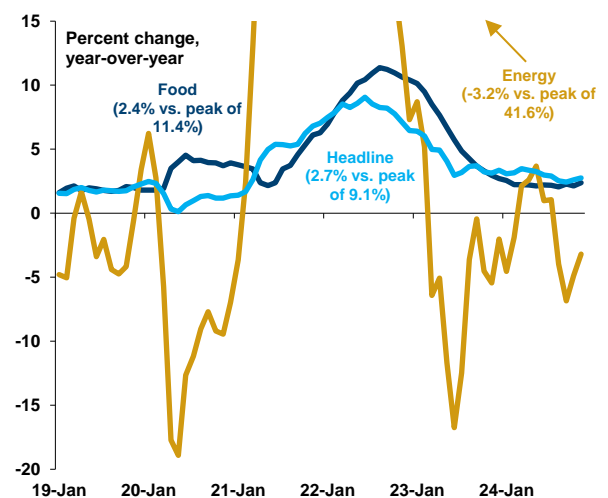
Core CPI



Source: Bureau of Labor Statistics via Haver Analytics

- Energy prices rose modestly in the latest month (+0.2 percent), which translated to a year-over-year decline of 3.2 percent (versus -4.9 percent in October; chart). Gasoline prices rose in the latest month (+0.6 percent), as did costs associated with utility piped natural gas service (+1.0 percent), but a decline of 0.4 percent in charges for electricity provided a partial offset. All told, energy prices at the consumer level remain subdued.
- The food component jumped 0.4 percent for the second time in the last three months after mostly modest shifts in the first eight months of 2024 (average of +0.148 percent per month from January through August versus +0.317 percent in the most recent three months). On a year-over-year basis, the food component increased 2.4 percent, the fastest pace since 2.6 percent in January, although the results were still mostly in line with the favorable pre-pandemic trend (chart).

CPI: Food & Energy

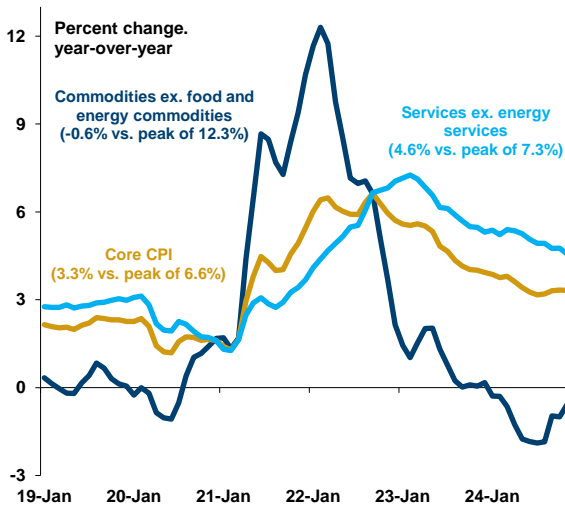


Source: Bureau of Labor Statistics via Haver Analytics

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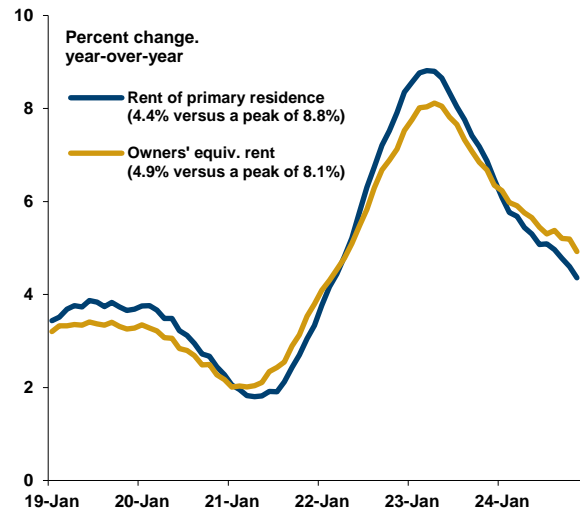
- The latest firm advance in the core, and sideways movement on a year-over-year basis, corresponded with similar-sized increases in both core commodities (+0.308 percent versus an average of -0.090 percent in the first 10 months of 2024) and services excluding energy services (+0.276 percent, slower than the average +0.383 in the January-to-October period). The shifts corresponded with a year-over-year decline of 0.6 percent and an increase of 4.6 percent, respectively (versus -1.0 percent and +4.8 percent in October; chart, below left). On the goods side, vehicle prices stood out as a source of pressure. Specifically, used vehicle prices jumped 2.0 percent after a surge of 2.7 percent in October; new vehicle prices rose 0.6 percent, although they had declined in most months in 2024 thus far. On a year-over-year basis used vehicle prices are still down 3.4 percent and new vehicle prices are off a more modest 0.7 percent. On the service side, hotel fees surged 3.7 percent. Additionally, recreation services rose 0.7 percent for the second consecutive month and the costs of medical care services showed signs of pressure for the third consecutive month (+0.4 percent in November). Contrastingly, the price of auto insurance rose only 0.1 percent after a dip of a similar magnitude in October (versus brisk average monthly advances of 1.2 percent in the first nine months of 2024). Additionally, the rent of primary residence and owners' equivalent rent components each increased 0.2 percent – the softest advances of 2024 thus far. Correspondingly, the year-over-year increase in rents slowed to 4.4 percent from 4.6 percent and that for OER moderated to 4.9 percent from 5.2 percent, still above pre-pandemic trends but improving (chart, below right).

Decomposition of Core CPI



Source: Bureau of Labor Statistics via Haver Analytics

CPI: Rents



Source: Bureau of Labor Statistics via Haver Analytics

- All told, view the CPI report as unlikely to dissuade the FOMC from reducing the target range for the federal funds rate by 25 basis points at next week's gathering. Although core inflation has proved somewhat sticky, ongoing moderation in rents, along with more normal conditions in the labor market that are likely supportive of further easing in wage growth, suggest that inflation remains on a path to two percent. With that said, the aforementioned path is likely to be bumpy with progress sometimes slow. Thus, caution is warranted and the Committee is unlikely to pursue ongoing sequential rate cuts in 2025 as they transition to a neutral stance of policy. In that regard, we still expect officials to cut the target range at the first two meetings of the year, but we could foresee a pause by May.