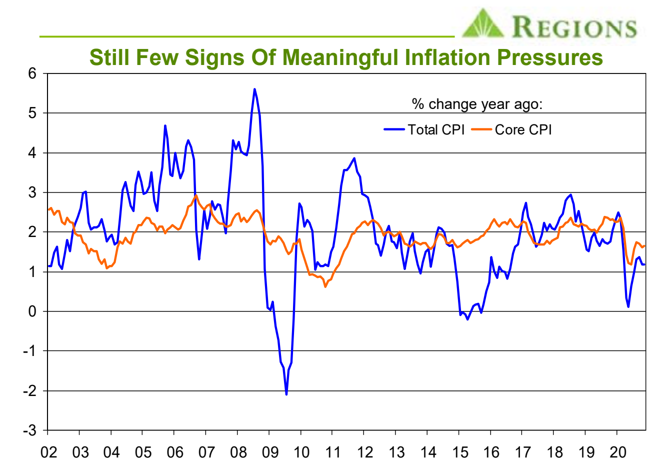
ECONOMIC UPDATE
REGIONS
December 10, 2020

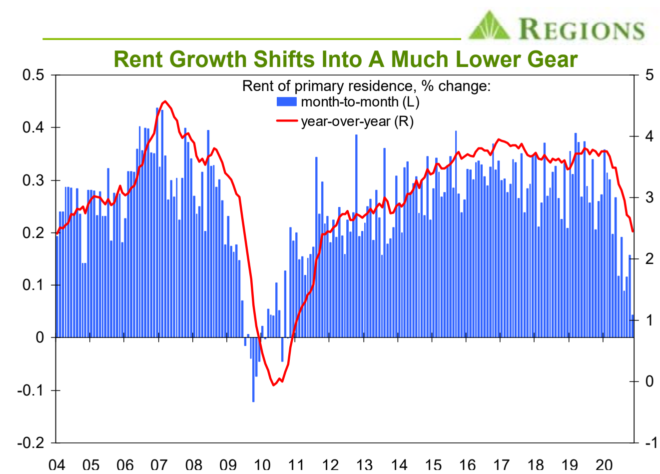
November Consumer Price Index: Still Few Signs Of Meaningful Inflation Pressures

- The total CPI rose by 0.2 percent in November (up 0.189 percent unrounded); the CPI rose by 0.2 percent (up 0.219 percent unrounded)
- On a year-over-year basis, the total CPI is up 1.2 percent and the core CPI is up 1.6 percent as of November

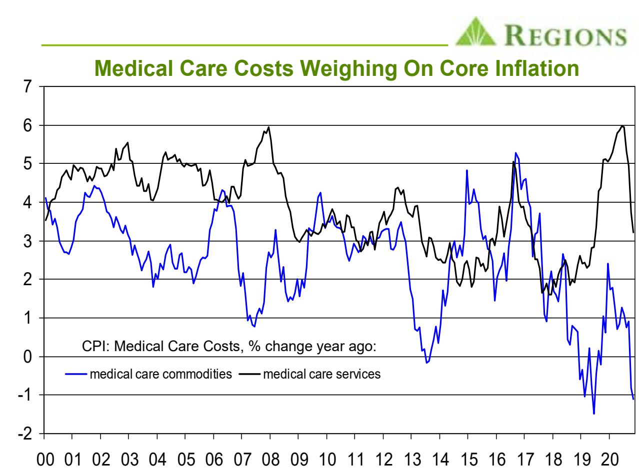
The total CPI and the core CPI each rose by 0.2 percent in November, topping the 0.1 percent in each that we and the consensus expected. Larger increases in prices for apparel and public transportation than our forecast anticipated account for our forecast miss. And, as with virtually every other economic data series of late, there is some distortion from seasonal adjustment in the November CPI data. On a not seasonally adjusted basis, the total CPI fell in November, but the decline was smaller than is normal for the month of November, which contributed to the extent of the increase in the total CPI on a seasonally adjusted basis. Still, in the broader picture, these issues account to little more than rounding errors, and with the total CPI up 1.2 percent and the core CPI up 1.6 percent year-on-year, there are few signs of meaningful and sustained inflation pressure at present, and this is likely to remain the case for some time to come.



The broad energy index was up 0.4 percent in November, which nonetheless leaves it down 9.4 percent year-on-year. While retail gasoline prices were down 0.4 percent on a seasonally adjusted basis, higher prices for fuel oil and gas more than offset this, thus pushing the broader energy index higher. Prices for food consumed away from home were up 0.1 percent, smaller than the increases seen over the prior several months, which at least in part reflects the spike in virus cases and renewed restrictions on eat-in dining. Prices for food consumed at home fell by 0.3 percent in November, and the weakness seen in this category over the past five months is in stark contrast to the sizable increases seen in the early months of the pandemic. Though food prices did not respond, there were sharp increases in prices for housekeeping supplies and household paper products, which to some extent could reflect the ongoing surge in COVID-19 cases and new restrictions on activity leading people to stock up and, in turn, supporting prices.



Rent growth continued to lose momentum in November, with primary rents "up" by just 0.043 percent, the weakest monthly print since October 2010, while the 2.4 percent over-the-year increase is the smallest since November 2012. Owners' equivalent rents were also flat in November, leaving them up 2.3 percent year-on-year. Note that rents account for over 40 percent of the core CPI, so the deceleration in rent growth is a key factor in the moderating rate of core CPI inflation, but lower weights mean the drag from rents is much less pronounced in inflation as measured by the core PCE deflator. Another drag on core CPI inflation is medical care. Prices of medical care goods fell by 0.3 percent in November, which follows a 0.8 percent decline in October. While prices for prescription and non-prescription drugs have fallen, there have been much steeper declines in prices of medical equipment. Prices for medical care services fell by a more modest 0.1 percent in November, though much of this is accounted for by a 1.0 percent decline in health insurance premiums, which more than offset higher prices for in-patient and out-patient hospital services. Note that the CPI measures health care costs on the basis of out of pocket expenditures made by consumers, which is different than how health care costs are accounted for in the PCE Deflator – a total cost basis, regardless of who pays.



Prices for core (i.e., excluding food and energy) goods rose by 0.1 percent in November, but are up 1.4 percent year-on-year, the largest such increase since May 2012. Stronger consumer demand coupled with what are in many cases spotty inventories have lent support to core goods prices over recent months, and to the extent that the U.S. dollar weakens further, that will provide additional support for core goods prices in the months ahead. Core services prices rose by 0.2 percent, leaving them up 1.7 percent year-on-year. While part of this reflects diminishing health care cost inflation and softening rent growth, there is little evidence of inflation pressures elsewhere in the services sector, and keep in mind that this is the part of the economy most impacted by restrictions on activity and faltering consumer confidence tied to the ongoing surge in virus cases. Weakness in core services prices will, given the relative weights, dominate any further firming in core goods prices, thus keeping overall core inflation in check in the months ahead.

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