ECONOMIC UPDATE

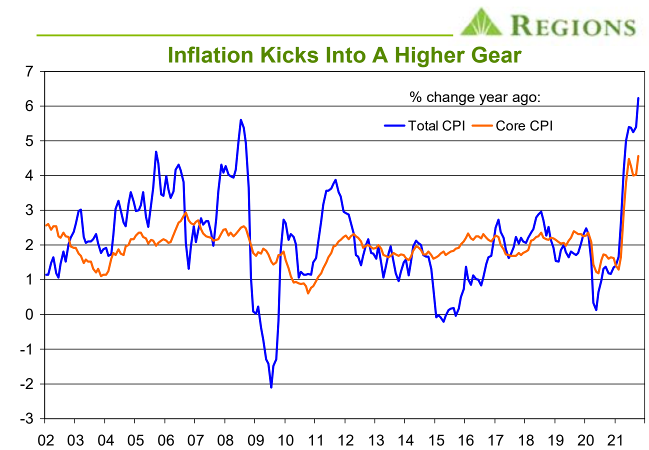
REGIONS

November 10, 2021

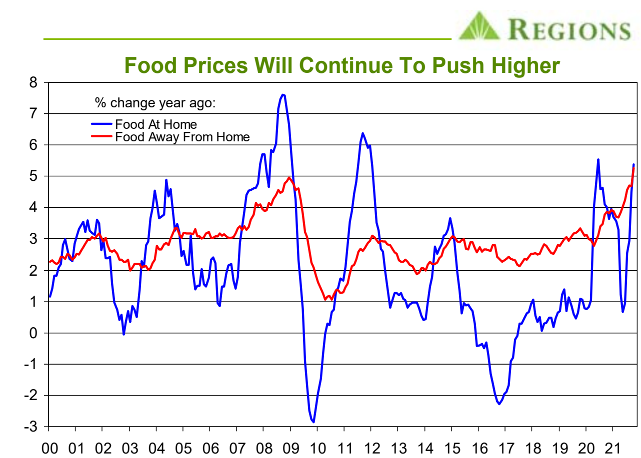
October Consumer Price Index: Inflation Kicks Into A Higher Gear

- The total CPI rose by 0.9 percent in October (up 0.943 percent unrounded); the core CPI rose by 0.6 percent (up 0.599 percent unrounded)
- On a year-over-year basis, the total CPI is up 6.2 percent and the core CPI is up 4.6 percent as of October

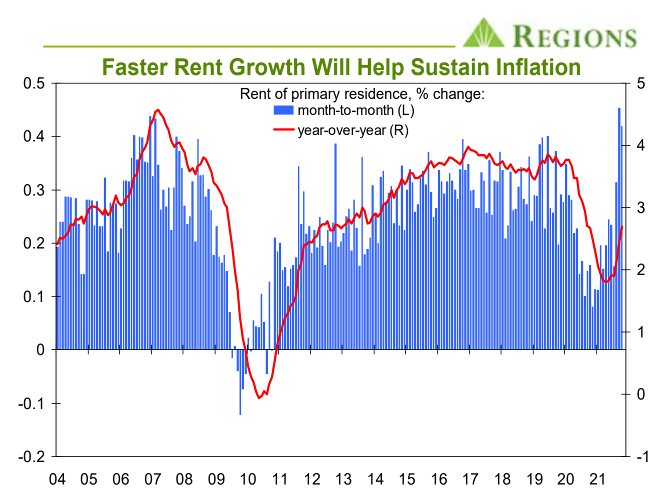
The total CPI rose by 0.9 percent in October, topping our above-consensus forecast of a 0.7 percent increase, while the core CPI rose by 0.6 percent, topping our above-consensus forecast of a 0.5 percent increase. On an over-the-year basis, the total CPI is up 6.2 percent as of October, the largest such increase since November 1990, while the core CPI is up 4.6 percent, the fastest rate of core CPI inflation since July 1991. Prices for energy and used motor vehicles rose by more than our forecast anticipated, as did medial care costs. In our weekly *Economic Preview*, we pointed to medical care costs as having been oddly restrained for some time, thus acting as a drag on inflation, and noted that at some point a normalization of medical care costs would add to inflation pressures. Whether that time is at hand or whether October's increase is a head fake remains to be seen, but even if it's the latter, at some point it will be the former. Or something like that. In any event, what should be concerning to those still dismissing inflation as a transitory matter is that inflation pressures have broadened, i.e., it is no longer outsized increases in a few components tied to the economy reopening that are fueling rapid inflation. Our view is that the broader based inflation pressures are, the more likely it is that they will be sustained. And, sure, no one, at least not yet, expects inflation to persist at 6.0 percent, or even 5.0 percent for that matte, so in that sense we're all in the transitory camp. But, that will still leave us with inflation well ahead of the FOMC's 2.0 percent target through 2022, even as measured by the PCE Deflator, the FOMC's preferred gauge of inflation which tends to run a bit below CPI inflation. The risk is that market-based expectations of inflation become unmoored and take market interest rates with them.



Energy prices rose by 4.8 percent in October and stand 30.0 percent higher year-on-year. Retail gasoline prices rose by 6.1 percent, prices for residential gas service rose by 6.6 percent and are up 28.1 percent year-on-year, and electricity pries rose 1.8 percent. The risk is that energy prices will push meaningfully higher during the winter months should supply constraints become more binding, and higher costs for fuel inputs will also make electricity generation more expensive. For a second straight month, food prices rose by 0.9 percent, with prices for food consumed at home up by 1.0 percent and prices for food consumed away from home up by 0.8 percent, and on an over-the-year basis prices in both sub-groups are up over 5.0 percent. Restaurant prices got an added push from higher demand as consumers moved about more freely in October, adding to pressures from rising costs for food-inputs and labor, while prices for processed and prepared foods are rising at rapid rates, reflecting higher input, packaging, and shipping costs. Food prices will continue to push higher in the months ahead.



Prices for core goods (consumer goods excluding food and energy) rose by 1.0 percent in October, helped along by a 2.5 percent increase in prices for used motor vehicles and a 1.4 percent increase in prices for new motor vehicles. Vehicle prices have been pushed sharply higher due to significantly constrained supply, and while motor vehicle producers calling back 27,700 workers in October is an encouraging sign that production will begin rising, it will take many months for supply to normalize. Both primary rents and owners' equivalent rents rose by 0.4 percent in October, yielding over-the-year increases of 2.7 percent and 3.1 percent, respectively. With CPI measures of rent lagging other indicators, we're still in the early stages of accelerating rent growth being a support for inflation, and while rents have a lower weighting in the PCE Deflator, the trend will be the same. Medical care costs rose by 0.5 percent in October, the largest monthly increase since May 2020. While this leaves medical care costs up only 1.3 percent year-on-year, it is only a matter of time before larger monthly increase are sustained and rising medical care costs become a meaningful contributor to headline and core inflation.



Inflation will remain well ahead of the FOMC's target rate through 2022. Dismissing inflation as "transitory" makes it sound much more benign than is actually the case, as households struggling with higher prices for food, energy, and shelter can attest.

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