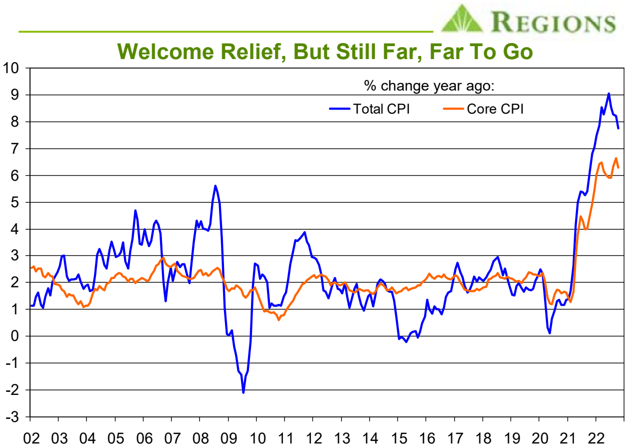
ECONOMIC UPDATE
REGIONS
November 10, 2022

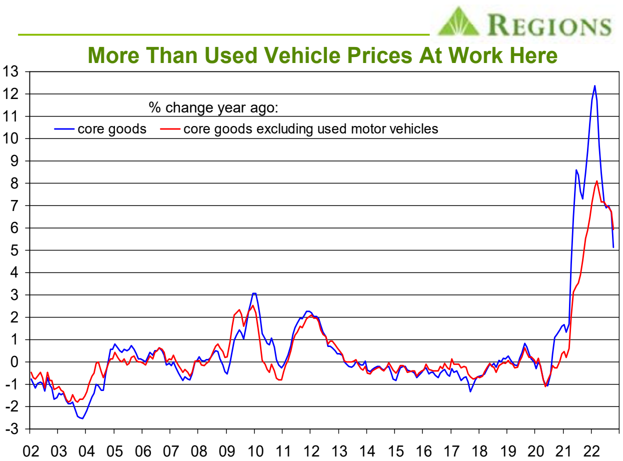
October Consumer Price Index: Welcome Relief, But Still Far, Far To Go

- The total CPI rose by 0.4 percent in October (up 0.438 percent unrounded); the core CPI rose by 0.3 percent (up 0.272 percent unrounded)
- On a year-over-year basis, the total CPI is up 7.7 percent, and the core CPI is up 6.3 percent as of October

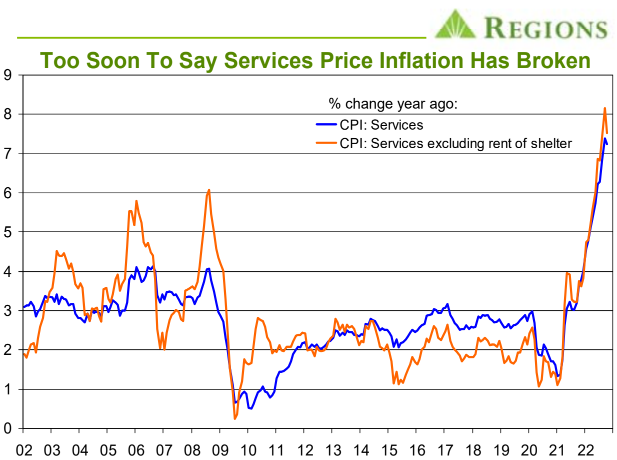
Who knew inflation this high could feel so good! At least judging from the initial reactions to the October CPI report in the financial markets. The total CPI rose by 0.4 percent in October, less than the 0.6 percent increase we and the consensus expected, while the core CPI rose by 0.3 percent, shy of our below-consensus forecast of a 0.4 percent increase. That the increase in the total CPI came despite a push from higher gasoline prices simply reflects broadly based softening in the pace of services price inflation while core goods prices fell, as we suspected would be the case. Additionally, a change in the methodology used to calculate them led to a sharp decline in prices for health insurance, which weighed on the increase in the core CPI. On an over-the-year basis, the total CPI is up 7.7 percent and the core CPI up 6.2 percent as of October, and, no, the markets aren't actually cheering inflation this high but rather the softening in the monthly increases which should give the FOMC cover to dial down the rate at which it is increasing the Fed funds rate. Even should that be the case at the December FOMC meeting, as we and most others expect, that by no means should be taken to imply that a pivot to rate cuts would be close at hand. Despite some encouraging signs in the October CPI report, we continue to think the trip back down toward the FOMC's 2.0 percent inflation target will be a slow and somewhat bumpy one. That trip will have to be much further along before the FOMC would even consider reversing course.



On a seasonally adjusted basis, retail gasoline prices were up 4.0 percent in October, while the broad energy index was up by 1.8 percent, leaving it up 17.6 percent year-on-year. With gasoline prices having moved higher over recent weeks and prices for heating fuels likely to jump as winter sets in, rising energy prices figure to be a source of upward pressure on the total CPI over the next few months. The overall index of food prices was up by 0.6 percent in October, the smallest monthly increase since last December, with prices for food consumed at home up by 0.4 percent and prices for food consumed away from home up by 0.9 percent. Still, even with the smaller monthly increase, food pries are up 10.9 percent on an over-the-year basis, with grocery store prices up 12.4 percent.



In our weekly *Economic Preview*, we noted that we would not be surprised to see core goods (non-food, non-energy) prices fall in each of the final three months of 2022 given shifting patterns in consumer spending and the extent to which bloated inventories were leasing retailers to engage in aggressive discounting, with declining prices for used motor vehicles adding further downward pressure. Each of these is on display in the October CPI report. Core goods prices were down 0.4 percent in October, led by a 2.4 percent decline in used vehicle prices. While used vehicle prices have had an outsized impact on the overall index of core goods prices since the onset of the pandemic, reflecting the magnitude of changes in used vehicle prices, the mistake many made was to attribute all of the movement in core goods prices to used motor vehicles. As our middle chart makes clear, that was never the case, and there is now more to decelerating core goods price inflation than rapidly falling prices for used vehicles. Apparel prices fell by 0.7 percent in October on the heels of a 0.3 percent decline in September, while prices for appliances and home furnishings also tumbled, declines likely to be extended by the housing market being battered by higher mortgage interest rates. And, even though still rising, prices for new motor vehicles are doing so at a slower pace given some relief on the supply front.



Core services prices were up by 0.5 percent in October, less than we expected, with a bit of moderation in rents playing a part. The 4.0 percent decline in health insurance prices, which reflects no more than the annual update to the BLS's methodology, led to a 0.6 percent decline in the index for medical care services. As we noted in our *Economic Preview*, this will be a persistent weight on the core CPI for the next eleven months. What will be of more relevance is whether, and to what extent, we see further moderation in rent growth and the extent to which consumer demand for services wanes in months ahead, as we expect will be the case. As such, while welcome relief, it is too soon to draw any conclusions from the moderation in core services inflation seen in the October data.

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