ECONOMIC UPDATE

REGIONS

November 14, 2023

October Consumer Price Index: On The Way, But Not There Yet

- The total CPI was unchanged in October (up 0.045 percent unrounded); the core CPI rose 0.2 percent (up 0.227 percent unrounded)
- On a year-over-year basis, the total CPI is up 3.2 percent and the core CPI is up 4.0 percent as of October

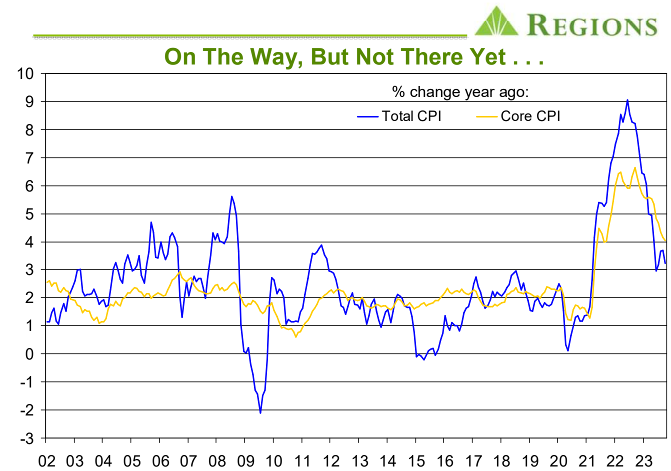
The total CPI was unchanged in October while the core CPI rose by 0.2 percent, each one-tenth shy of the consensus forecast with the increase in the core CPI half the increase our forecast anticipated. Gasoline was a meaningful drag on the headline CPI, knocking two-tenths of a point off the monthly change, in line with expectations. On an over-the-year basis, the total CPI is up 3.2 percent and the core CPI is up 4.0 percent as of October.

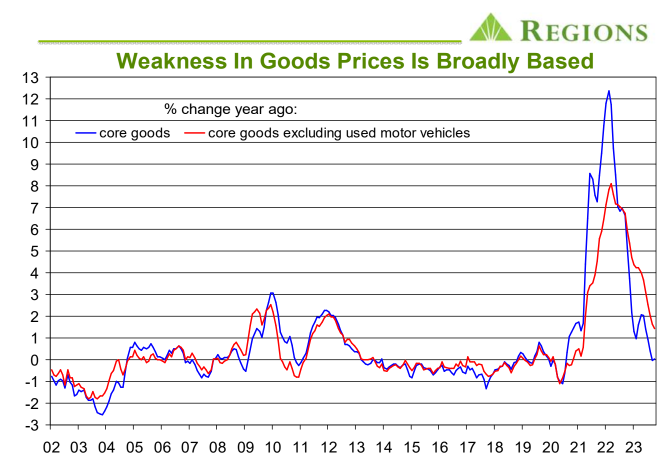
Led by a 5.0 percent decline in retail gasoline prices, the broad energy index fell by 2.5 percent in October as the drop in gasoline prices overwhelmed increases in electricity rates and prices for residential gas service. As we noted in this week's *Economic Preview*, sharply lower demand for gasoline has led to a substantial build in inventories, which has acted to depress both retail gasoline prices and demand for crude oil. One consequence is that crude oil prices have continued to fall despite the conflict in the Middle East. To that point, halfway through the month, further declines have left gasoline prices on course to be an even bigger drag on the November CPI than was the case in the October data. Food prices rose by 0.3 percent, the largest monthly increase since February. Prices for food consumed at home rose by 0.3 percent, a larger increase than seen in the prior two months, while prices for food consumed away from home posted a second straight 0.4 percent increase. Though the 2.1 percent year-on-year increase in process for food consumed at home is the smallest such increase since June 2021, keep in mind that it is the cumulative increase of 24.5 percent since the onset of the pandemic that is acting as a stress for many households. This helps account for why surveys of consumer sentiment show consumers still expressing anxiety over inflation as opposed to celebrating the fact that prices are rising at a slower rate.

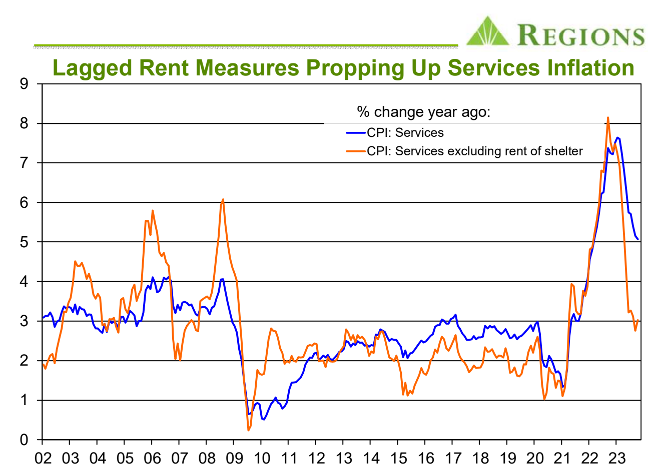
Our above-consensus forecast of the core CPI was tied to a few specific drivers, none of which played out as we expected. One was the annual adjustment for health insurance premiums, with the October adjustment setting the stage for this category for the coming twelve months. Recall that last year's adjustment resulted in the CPI reporting sharp declines in health insurance premiums for the year ending in September, which in turn acted as a drag on health services inflation. We had anticipated this year's adjustment would yield a much larger increase than the 1.1 percent increase shown in the October data. We also saw the potential for seasonal adjustment to boost lodging rates should the decline in unadjusted rates be smaller than that typically seen in October. Instead, the 6.1 percent decrease in lodging rates in the unadjusted data was so large that not even friendly seasonal adjustment could salvage it, hence the 2.5 percent decline reported in the seasonally adjusted data. While the 0.8 percent decline in prices for used motor vehicles was in line with our forecast, new vehicle prices posted a surprising decline. Rents were basically a wash, with primary rents posting a larger increase and owners' equivalent rents posting a smaller increase than we had expected.

Also contributing to the tame reading on the core CPI were declines in prices for appliances, household equipment, and many lines of home furnishings. Excluding used motor vehicles, core goods prices were flat in October and have been more or less stagnant over the past seven months. As we noted in this year's holiday sales preview, one thing consumers have going for them this holiday season is a much tamer pricing environment, in stark contrast to the past two holiday seasons. Core services prices rose by 0.3 percent in October, half the increase seen in September despite higher health insurance premiums. Services inflation excluding shelter has moderated greatly over the past several months, and when the CPI measure of primary rents catches up with market based measures in showing moderating rents, core services inflation will slow further.

The markets have reacted most favorably to the softer than expected October CPI report. Fears of an additional Fed funds rate hike, which we saw as unfounded even had the core CPI come in as hot as we expected, have been allayed. That said, inflation nonetheless remains well above the FOMC's 2.0 percent target, meaning that the Committee is far from being ready to discuss Fed funds rate cuts.







Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com