ECONOMIC UPDATE

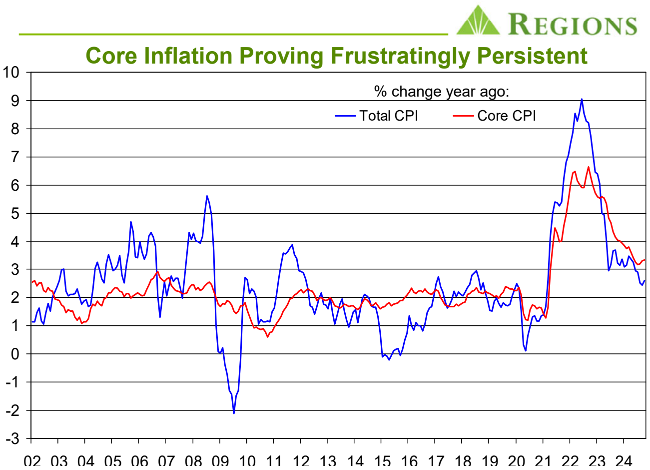
REGIONS

November 13, 2024

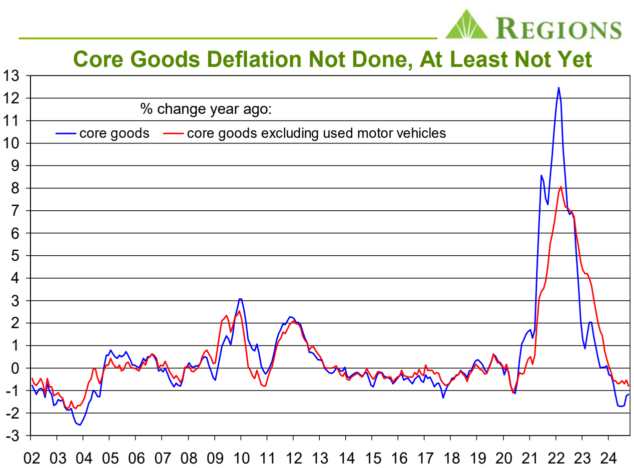
October Consumer Price Index: Core Inflation Not Ramping Up, But Not Really Easing

- The total CPI rose by 0.2 percent in October (up 0.244 percent unrounded); the core CPI rose by 0.3 percent (up 0.280 percent unrounded)
- On a year-over-year basis, the total CPI is up 2.6 percent and the core CPI is up 3.3 percent as of October

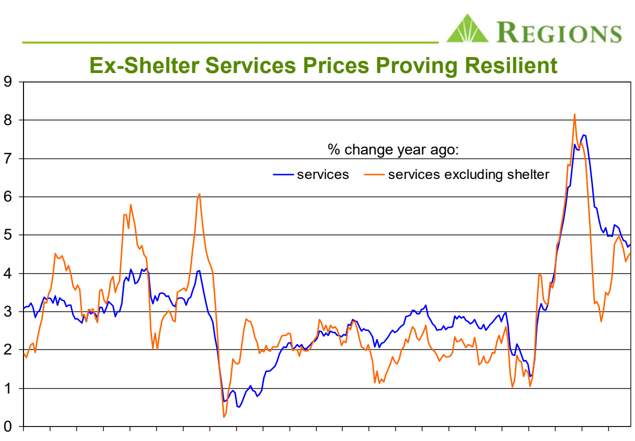
The total CPI rose by 0.2 percent in October, matching what we and the consensus forecast anticipated, while the core CPI rose by 0.3 percent, in line with the consensus forecast but topping the 0.2 percent increase we anticipated. On a year-on-year basis, the total CPI is up 2.6 percent and the core CPI is up 3.3 percent as of October. That the CPI measures of rents, which dance to their own tune but which also account for over forty percent of the core CPI, came in hotter than we expected accounts for our miss on our forecast of the core CPI. Of more relevance is that the measure of core services excluding shelter costs was up 0.3 percent in October after having risen by 0.4 percent in September, while core goods prices excluding used motor vehicles fell by 0.3 percent, a bit larger than the 0.2 percent drop our forecast anticipated. There is little in the CPI data to suggest that inflation is picking back up; at the same time there is little to suggest core CPI inflation is firmly on a downward path, but instead is proving more persistent than many had anticipated. The same is true of core inflation as measured by the PCE Deflator, the FOMC's preferred gauge of inflation. In each case, base effects will be tougher over the next few months, raising the possibility that core inflation could tick higher. Moreover, with the prospect that expanded tariffs could boost goods prices as we move through 2025, there is still reason for the FOMC to remain wary of inflation. Though not necessarily ruling out further Fed funds rate cuts, this does suggest a slower and more uneven pace than has been anticipated.



In this week's *Economic Preview*, we identified a few variables that would determine the fate of our forecast of a 0.2 percent increase in the core CPI. As we anticipated, apparel prices fell sharply while seasonal adjustment led a jump in lodging rates. While we expected only a mild increase in health insurance premiums, we noted a methodological change injected added uncertainty into our forecast; as it turns out premiums increased by just 0.1 percent. The October data also show a large increase in prices for used motor vehicles; while the 2.7 percent increase was larger than we anticipated, we noted in our *Preview* that firming prices on the wholesale level over recent months would be compounded by the jump in replacement demand typically seen in the wake of hurricanes. So, for the most part, we were on the mark in our assessment of the core CPI. Where we went wrong was expecting the more moderate increases in the CPI measures of rents seen in the September data to be repeated in the October data, though we did have the foresight to note we had little faith in our call based on how jumpy these measures have been. Owners' equivalent rents rose by 0.5 percent in October after having risen by 0.4 percent in September, with the aggregate rent index up 0.4 percent after having risen by 0.2 percent in September. Still, that the 3.3 percent year-on-year increase in the core CPI matched our forecast shows we weren't too far off on the unrounded monthly increase.



The overall energy index was flat in October – we had anticipated a modest decline, but a larger increase in electricity rates than we anticipated negated declines in most other areas, including a 0.9 percent decline in retail gasoline prices. The overall index of food prices rose by 0.2 percent in October, matching our forecast and milder than the 0.4 percent increase seen in September. One thing worth noting here is that the rate at which prices at full and limited service restaurants are rising has moderated over recent months, in line with comments from providers noting softening demand.



While the overall index of prices for core (non-food, non-energy) goods was flat, keep in mind the 2.7 percent in prices for used motor vehicles. Given how volatile prices for used vehicles have been since the onset of the pandemic, we've fancied the BLS's measure of prices for core goods excluding used vehicle prices as a more reliable gauge of trends in core goods prices. That measure fell by 0.3 percent in October, dragged down by declines in prices for apparel, appliances, and most recreational goods. This is something to watch for as you process the data on October retail sales, given that retail sales are reported in nominal terms. Core goods prices are also something to watch when processing holiday season sales. That our forecast anticipates the smallest annual increase since 2018 is in part predicated on prices for core consumer goods falling further over the remainder of the year.

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