ECONOMIC UPDATE

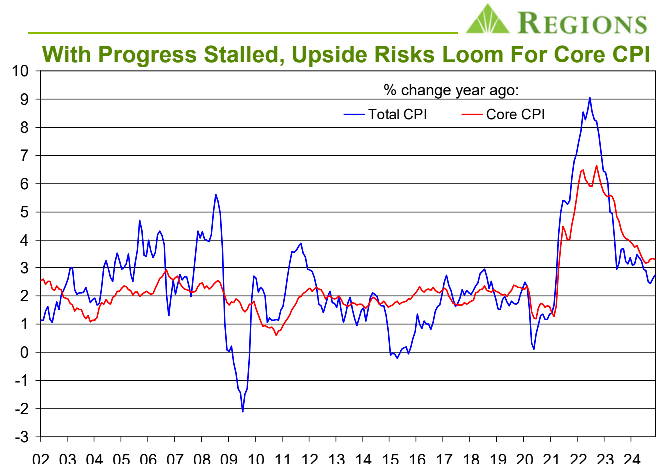
REGIONS

December 11, 2024

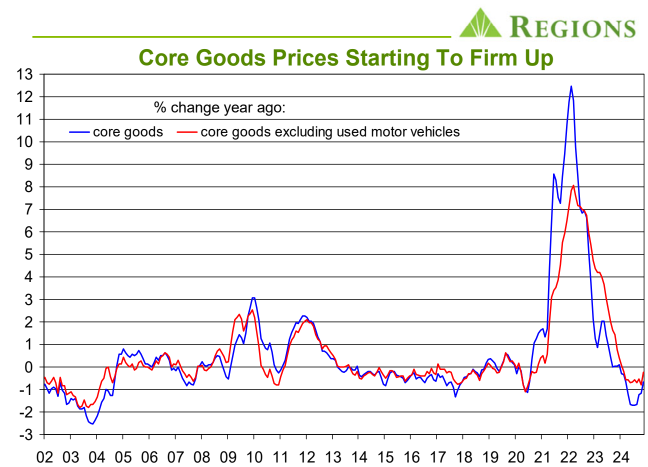
November Consumer Price Index: In-Line Report, But Upside Risks Loom

- The total CPI rose by 0.3 percent in November (up 0.313 percent unrounded); the core CPI rose by 0.3 percent (up 0.308 percent unrounded)
- On a year-over-year basis, the total CPI is up 2.7 percent and the core CPI is up 3.3 percent as of November

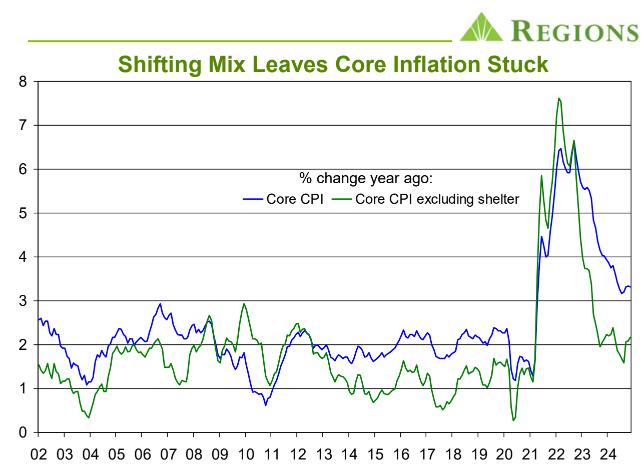
Both the total CPI and the core CPI rose by 0.3 percent in November, yielding year-on-year increases of 2.7 percent and 3.3 percent, respectively. The month/month and year/year changes each matched what we and the consensus forecast anticipated. That does not, however, mean there were no surprises in the November data. For instance, the overall index of food prices rose by 0.4 percent on an outsized increase in grocery store prices, while both primary and owners' equivalent rents rose by 0.2 percent, with the CPI data apparently starting to catch on to the moderation in rents first picked up in market based measures some time ago. Perhaps the broader point here, however, is that progress on the inflation front, particularly core inflation, has stalled, which is also apparent in the PCE Deflator, the FOMC's preferred gauge of inflation. At the same time, looming changes to trade and immigration policy could lend support for inflation pressures as we move through 2025. While a meaningful and sustained reacceleration in inflation may not be in the cards, the absence of further progress to the downside at a time when many FOMC members remain wary about inflation could be sufficient to scale down both the magnitude and pace of Fed funds rate cuts in 2025 after what we and most others expect will be a twenty-five basis point cut at next week's FOMC meeting.



As noted above, the overall index of food prices rose by 0.4 percent in November, with prices of food consumed at home rising by 0.5 percent, the largest monthly increase since January 2023, and prices for food consumed away from home up by 0.3 percent. Jumps in prices for meats and eggs helped fuel the increase in grocery store prices, offsetting declines in other categories. On an over-the-year basis, the overall index of food prices is up 2.4 percent, the largest such increase since January. Even if not likely to be sustained, the sizable increase in food prices in November reinforces the notion that consumers are reacting to the cumulative increases in prices more than to the monthly changes, such that the moderating trend in place prior to November was less consolation than many assumed was the case. The overall index of energy prices rose by 0.2 percent in November. Though retail gasoline prices fell by 2.9 percent on a not seasonally adjusted basis, that decline was smaller than the November seasonal factor was geared for, hence the 0.6 percent increase in gasoline prices on a seasonally adjusted basis. Still, on an over-the-year basis, retail gasoline prices are down 8.1 percent and overall energy prices are down 3.2 percent.



Prices for core (non-food, non-energy) prices rose by 0.3 percent in November. While a 2.0 percent increase in prices for used motor vehicles was a main support, the BLS's measure of core goods prices excluding used motor vehicles rose by 0.1 percent. This is the second increase in the past three months, and while prices for new motor vehicles were firmer than we expected, more broadly it seems that goods prices are at least firming up. To the extent this is the case, this firming comes ahead of two developments – a potential port strike in mid-January and a potential expansion of tariffs – that could send core goods prices higher, perhaps meaningfully so, as we move through 2025. Obviously, the impacts of a port strike would ultimately reverse, but the effects of tariffs would be more lasting, though it is too soon to quantify any such effects. At the same time, however, to the extent that immigration reform leads to labor supply constraints, that could be another source of upward pressure on prices, particularly for agricultural goods, transportation services, leisure and hospitality services, and house prices.



Primary and owners' equivalent rents rose by 0.2 percent in November which, for the latter is the smallest monthly increase since April 2021. Though not actually a story in terms of telling us anything about market conditions, it is noteworthy in terms of the CPI data, which are known to lag market conditions. What is more noteworthy is that even with the moderation in rent growth, the core CPI still posted a fourth straight monthly increase of 0.3 percent and a fourth straight year-on-year increase of 3.3 percent, noteworthy in that rents account for over forty percent of the core CPI. This helps account for why many analysts, and at least a few FOMC members, remain wary about inflation pressures, which is especially the case given the potential supports for these pressures in 2025.

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