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# Economics

# ECONOMIC FLASH!

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## US CPI: More reason for the Fed to stay on hold

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| Consumer Price Index (monthly change, %) | Nov 2023 | Oct 2023 | Sep 2023 | Aug 2023 | Jul 2023 | Jun 2023 | Nov NSA YoY% |
|---|---|---|---|---|---|---|---|
| All items | 0.1 | 0.0 | 0.4 | 0.6 | 0.2 | 0.2 | 3.1 |
| Ex-food/energy | 0.3 | 0.2 | 0.3 | 0.3 | 0.2 | 0.2 | 4.0 |
| • Ex-food | 0.1 | 0.0 | 0.4 | 0.7 | 0.2 | 0.2 | 3.2 |
| • Ex-energy | 0.3 | 0.2 | 0.3 | 0.3 | 0.2 | 0.1 | 3.9 |
| Energy | -2.3 | -2.5 | 1.5 | 5.6 | 0.1 | 0.6 | -5.4 |
| Services | 0.5 | 0.3 | 0.6 | 0.4 | 0.3 | 0.3 | 5.2 |
| Housing | 0.4 | 0.3 | 0.6 | 0.3 | 0.4 | 0.3 | 5.2 |
| Fuels & util. | 1.2 | 0.2 | 0.7 | 0.6 | 0.2 | 0.3 | 0.1 |
| Food/beverages | 0.2 | 0.3 | 0.3 | 0.2 | 0.2 | 0.1 | 2.9 |
| • Food | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | 0.1 | 2.9 |
| Apparel | -1.3 | 0.1 | -0.8 | 0.2 | 0 | 0.3 | 1.1 |
| Transportation | -0.6 | -0.9 | 0.3 | 2.6 | -0.1 | 0.2 | 0.9 |
| Medical care | 0.6 | 0.3 | 0.2 | 0.2 | -0.2 | 0 | 0.2 |
| Recreation | -0.2 | 0.1 | 0.4 | -0.2 | 0.1 | 0.1 | 2.5 |
| Education, comm. | -0.3 | -0.2 | 0.1 | 0 | 0 | -0.2 | -0.1 |
| Other good, serv. | 0.2 | 0.6 | 0.6 | 0.4 | 0.1 | 0.2 | 5.6 |
| Commodities | -0.7 | -0.4 | 0.1 | 1 | -0.1 | 0.1 | 0.0 |

Source: Haver Analytics.

- Somewhere between bad and good, today's November CPI showed price pressures mildly accelerate as the market expected. Core inflation rose by 0.3% m/m in November, in line with expectations, and a notch higher than the October reading. Headline inflation increased by only 0.1%, above expectations of a flat reading, as it was weighed down by weaker commodity prices. In year-over-year terms, headline inflation edged down one notch to 3.1% and core inflation was unchanged at 4.0%. Core services inflation rose 0.5% in the month, up from 0.3%, as there were broad-based increased in major service categories including shelter. Supply chain normalization, restrictive monetary and price level reversion of used car continue to keep core goods in slightly deflationary territory with prices dropping 0.3% in the month. Today's data shows less progress than the FOMC would have liked and is more reason for the Fed to stay on hold. This reinforces our call that the Fed will not ease policy until late 2024.
- Shelter inflation, 35% of the inflation basket and the main component of core service inflation, rose by 0.5% m/m following a 0.3% increase in October. Shelter inflation momentum (three-month annualized change) has been range bound between 4-5.5% since the summer. While well below their peak pace at the start of 2023, the pace is still running a percentage point to percentage point and half above the pre-pandemic pace. While some market measures of rent have shown material moderation, the BLS' new tenant rent index has shown a modest and short-lived

reacceleration recently. On the surface, that suggests today's increase and the recent sideways movement in shelter is likely temporary. Nonetheless, this will be an important area to watch going forward, and we expect the FOMC will pay more attention to measures of rents and house prices going forward as the view on shelter costs gradually softening has largely anchored everyone's inflation outlook.

- The core services ex. shelter group reported a fourth consecutive month of strength, rising 0.5% m/m and has been in that range since August. The largest increases were in transportation and medical services, with other categories showing modest increases. Fed speakers have generally paid less attention to this measure of underlying inflation recently perhaps because of the sharp improvements in the supply-side of the economy that have been mostly overwhelming demand-induced inflation. However, with recent labour market data showing a more modest pace of rebalancing, the Fed will likely be more attentive to this measure once again especially with wages still running high.
- Core goods prices continued to be weak in November as the normalization of supply chains and more restrictive monetary policy are working to feed through into prices. Core goods excluding used cars saw a steep move into monthly disinflation, with a 0.6% m/m contraction. Prior to November, monthly changes had been hovering around flat readings since August. Used car prices, which had seen monthly price declines for the previous five months, picked up by 1.6% in November. We expect this is mostly monthly volatile and expect further price level reversion in used cars. Overall, judging by the New York Federal Reserve's Global Supply Chain Pressures Index, further weakness in core goods prices is likely in the coming months even if one believes the peak impact from monetary policy has passed on this sector.
- Energy prices fell sharply in the month, declining by 2.3% as oil prices continued their pull back since their late September peak. Food prices moderated to 0.2% after having remained in a range closely around 0.2% since about May.

## Implications & actions

**Re: Economic forecast** — Today's report reinforces our call that the Fed will be hold until late 2024 and ease policy by just 50bps in 2024. Services remain firm and have for some time and restrictive policy will take more time to pass-through and effect this sector. The Fed will need to see the labour market cool a bit more and bring wages to a place more consistent with the inflation target.

**Re: Markets** — Both bond yields and the greenback rose likely due to the underlying detail of the report showing the need for more restrictive policy for longer.