

Economics

ECONOMIC FLASH!

economics.cibccm.com

October 10, 2024

US CPI: Not great, but the story hasn't really changed

by **Ali Jaffery** ali.jaffery@cibc.com

Consumer Price Index (monthly change, %)	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Sep NSA YoY%
All items	0.2	0.2	0.2	-0.1	0.0	0.3	2.4
Ex-food/energy	0.3	0.3	0.2	0.1	0.2	0.3	3.3
• Ex-food	0.1	0.2	0.2	-0.1	0.0	0.4	2.5
• Ex-energy	0.3	0.3	0.2	0.1	0.2	0.3	3.2
Energy	-1.9	-0.8	0.0	-2.0	-2.0	1.1	-6.8
Services	0.4	0.3	0.3	0.1	0.2	0.4	4.7
Housing	0.2	0.3	0.4	0.2	0.3	0.2	4.1
Fuels & util.	0.5	-0.7	0.1	-0.1	-0.1	-0.3	3.0
Food/beverages	0.4	0.1	0.2	0.2	0.1	0.0	2.2
• Food	0.4	0.1	0.2	0.2	0.1	0.0	2.3
Apparel	1.1	0.3	-0.4	0.1	-0.3	1.2	1.8
Transportation	-0.2	0.1	-0.1	-1.3	-1.1	0.7	-1.1
Medical care	0.4	-0.1	-0.2	0.2	0.5	0.4	3.3
Recreation	-0.4	-0.1	0.1	0.1	-0.2	0.2	0.7
Education, comm.	0.0	0.1	0.2	-0.1	0.0	0.2	0.9
Other good, serv.	0.2	0.2	0.2	0.6	0.2	0.4	3.5
Commodities	-0.2	-0.1	-0.1	-0.4	-0.4	0.2	-1.3

Source: Haver Analytics.

- The September inflation report showed more stickiness in price pressures, with inflation surprising on the upside for the second consecutive month. Core CPI prices rose 0.31% m/m in the month, one tick above consensus expectations. Three-month annualized core CPI increased to 3.1% as of September. Headline inflation came in at 0.2% m/m in the month, also one notch above forecasters predictions. In year-over-year terms, headline inflation came down one tick to 2.4%, while core rose by a notch to 3.3%. The surprise in today's report was driving by hotter non-housing services prices and core goods, which strengthened after several months of modest deflation. Shelter inflation came down after last month's spike, which is the main silver lining of the report. Today's data will reinforce the message that the Fed is not in a hurry. The labor market is cooling but not breaking yet, and inflation is trending a bit above target.
- We estimate that today's CPI reading will translate into a 0.25-0.30% on core PCE, so slightly above target and likely squashing any possible case Powell could make for further front-loading to an FOMC. We continue to expect a 25bps cut in November and December.

- Shelter inflation came down materially, registering a 0.2% increase in the month, which is a pull back from the 0.5% last month. But the direction of travel on six-month and 12-month changes is clearly showing a downward trend. Shelter inflation has been unusually more volatile so far in 2024 than in 2023, but at some point, a lower rate of change has to stick and that will either strengthen the case that inflation is headed for 2%, but could also raise the risk of a modest inflation undershoot if there is slack in the economy, which is where we think we are more likely headed.
- The strength in non-housing services, which rose to 0.4% in September from 0.3% the month prior, was due to transportation services (motor vehicle insurance and airfares) and medical services. The latter was driven by an unusual and abrupt spike in professional services (doctor's and dental visits) which seems like it won't last. Also, the medical services in PCE is drawn from alternative data, including the PPI, so that will matter more for core PCE.
- Core goods picked up by 0.2% in the month. A spike in apparel prices and higher new and used car prices helped drive the pick up in prices. But also, price level reversion doesn't move in a straight line and so this may just be some noise around what is a very soft trend. Global export supply of goods remains very solid, and stimulus measures in China could keep supply very healthy, resulting in a supply-demand balance not really changing much over the near-term.
- Putting these pieces together, and also knowing the Fed puts more weight on the Cleveland CPI-median and trim measures that come out this afternoon, the story on inflation likely won't change too much even though the reading on core inflation doesn't look great in September. The Fed has time on its hands to wait to see how the balances of these forces, and the risks, plays out. Labor market data still matters more and the Fed will be squarely focused on how the pattern revisions evolves in October payroll report.

Implications & actions

Re: Economic forecast — The upside surprise in core inflation today, and a likely 0.3% core PCE reading, will cement the case for a 25bps cut in November.

Re: Markets — Bond yields surprisingly dropped, and the broad-dollar also weakened slightly but has since moved higher.

CIBC Capital Markets is a trademark brand name under which Canadian Imperial Bank of Commerce ("CIBC"), its subsidiaries and affiliates (including, without limitation, CIBC World Markets Inc., CIBC World Markets Corp. and CIBC Capital Markets (Europe) S.A.) provide different products and services to our customers around the world. Products and/or services offered by CIBC include corporate lending services, foreign exchange, money market instruments, structured notes, interest rate products and OTC derivatives. CIBC's Foreign Exchange Disclosure Statement relating to guidelines contained in the FX Global Code can be found at www.cibccm.com/fxdisclosure. Other products and services, such as exchange-traded equity and equity options, fixed income securities and futures execution of Canadian securities, are offered through directly or indirectly held subsidiaries of CIBC as indicated below.

Distribution

This report is written by the economics team at CIBC Capital Markets and is not the product of a CIBC Capital Markets research department. This report is issued and approved for distribution: (a) in Canada, by CIBC World Markets Inc., a member of the Canadian Investment Regulatory Organization, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund; and (b) in the United States, by either: (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada and does not constitute an offer or solicitation to buy or sell any securities discussed herein, including (without limitation) in any jurisdiction where such offer or solicitation would be prohibited.

The distribution of this report in the United Kingdom is being made only to, or directed only at, persons falling within one or more of the exemptions from the financial promotion regime in section 21 of the UK Financial Services and Markets Act 2000 (as amended) ("FSMA") including, without limitation, to the following:

- authorised firms under FSMA and certain other investment professionals falling within article 19 of the FSMA (Financial Promotion) Order 2005 ("FPO") and directors, officers and employees acting for such entities in relation to investment;
- high value entities falling within article 49 FPO and directors, officers and employees acting for such entities in relation to investment; and
- persons who receive this presentation outside the United Kingdom.

The distribution of this report to any other person in the United Kingdom is unauthorised and may contravene FSMA. No person falling outside such categories should treat this report as constituting a promotion to them or rely or act on it for any purposes whatsoever. This report is distributed solely to eligible counterparties or professional clients and not retail clients as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018.

For all other jurisdictions, this report is distributed solely to institutional clients and not retail clients as defined by the applicable securities legislation and regulation to which CIBC Capital Markets may be subject in any jurisdiction.

Miscellaneous

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.

CIBC Capital Markets and the CIBC Logo Design are trademarks of CIBC, used under license.

CIBC Capital Markets – PO Box 500, 161 Bay Street, Brookfield Place, Toronto, Canada M5J 2S8 – Bloomberg @ CIBC