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 then 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 draw 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.