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US CPI (October): A repeat performance

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Consumer Price Index (monthly change, %)	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Oct NSA YoY%
All items	0.2	0.2	0.2	0.2	-0.1	0.0	2.6
Ex-food/energy	0.3	0.3	0.3	0.2	0.1	0.2	3.3
• Ex-food	0.3	0.1	0.2	0.2	-0.1	0.0	2.7
• Ex-energy	0.3	0.3	0.3	0.2	0.1	0.2	3.2
Energy	0.0	-1.9	-0.8	0.0	-2.0	-2.0	-4.9
Services	0.4	0.4	0.3	0.3	0.1	0.2	4.7
Housing	0.4	0.2	0.3	0.4	0.2	0.3	4.2
Fuels & util.	0.8	0.5	-0.7	0.1	-0.1	-0.1	3.6
Food/beverages	0.2	0.4	0.1	0.2	0.2	0.1	2.1
• Food	0.2	0.4	0.1	0.2	0.2	0.1	2.1
Apparel	-1.5	1.1	0.3	-0.4	0.1	-0.3	0.3
Transportation	0.3	-0.2	0.1	-0.1	-1.3	-1.1	-0.1
Medical care	0.3	0.4	-0.1	-0.2	0.2	0.5	3.3
Recreation	0.4	-0.4	-0.1	0.1	0.1	-0.2	1.0
Education, comm.	-0.3	0.0	0.1	0.2	-0.1	0.0	0.8
Other good, serv.	0.4	0.2	0.2	0.2	0.6	0.2	3.3
Commodities	0.0	-0.2	-0.1	-0.1	-0.4	-0.4	-1.0

Source: Haver Analytics.

- There weren't any surprises in today's US CPI report, which leaves the Fed on track to cut rates by another quarter point in December. Headline and ex. food/energy CPI gave repeat performances, as both rose by 0.2% m/m and 0.3% m/m, respectively, in October, matching the pace seen in both of the previous two months. That left the annual pace of headline inflation two ticks higher on base effects at 2.6%, while ex. food/energy CPI remained at 3.3% y/y, as expected by the consensus. Core goods prices were flat which provided some offset to the 0.3% m/m increase seen in core services ex. housing, which was a one tick deceleration from September's pace. Inflation in the latter group will be contained ahead as slack is starting to open up in the labor market, and inflation is on track to reach target by mid-2025.
- Core goods prices remained in deflationary territory on a year-over-year basis at -1.0% and flatlined during the month. On a monthly basis, apparel prices showed a sharp decline, along with a retrenchment in medical goods, which offset a surge in used car prices. The inventory-to-sales ratio is still below pre-pandemic norms for US retailers, as the pace of consumption in the US has been robust, however, we expect slower labor income growth to translate into slower consumption ahead, which should help keep goods prices contained. 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.

- Shelter inflation increased to 0.4% m/m from 0.2% m/m, as the OER component gained momentum. However, the six-month and twelve-month changes have shown a clear deceleration since the peaks seen in early 2023, and a lower rate of change will become the norm ahead as the slowdown in the pace of rent increases on new leases is picked up further in the measure. That will bolster the case that inflation is headed to 2%.
- Core services prices are up by 4.8% over the past year, which includes upwards pressure from car insurance and shelter prices that are still normalizing and Powell didn't seem to be concerned about this "catch-up inflation" in his November press conference. The six-month annualized pace of core services ex. shelter inflation is running at 2.3%, and will continue to converge to target as the labor market slows.
- The core reading implies that it will be a close call for the Fed's preferred prices measure, core PCE prices, which could come in at 0.2% or 0.3%m/m given that the weightings and basket composition of the index which places a lower weight on shelter and higher weight on medical care.

Implications & actions

Re: Economic forecast — The inflation story hasn't changed that much since the last inflation report, and the Fed will likely maintain focus on the health of the labor market, which is clearly slowing. Another 25bp cut is likely in December.

Re: Markets — Markets increased rate cut bets for the Fed in December, seemingly due to expectations for a lower core PCE reading, causing bond yields to ease off.

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