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December 11, 2024

US CPI (November): Better than it looked

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Consumer Price Index (monthly change, %)	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	Nov NSA YoY%
All items	0.3	0.2	0.2	0.2	0.2	-0.1	2.7
Ex-food/energy	0.3	0.3	0.3	0.3	0.2	0.1	3.3
• Ex-food	0.3	0.3	0.1	0.2	0.2	-0.1	2.8
• Ex-energy	0.3	0.3	0.3	0.3	0.2	0.1	3.2
Energy	0.2	0.0	-1.9	-0.8	0.0	-2.0	-3.2
Services	0.3	0.4	0.4	0.3	0.3	0.1	4.5
Housing	0.3	0.4	0.2	0.3	0.4	0.2	4.1
Fuels & util.	0.1	0.8	0.5	-0.7	0.1	-0.1	2.9
Food/beverages	0.4	0.2	0.4	0.1	0.2	0.2	2.3
• Food	0.4	0.2	0.4	0.1	0.2	0.2	2.4
Apparel	0.2	-1.5	1.1	0.3	-0.4	0.1	1.1
Transportation	0.4	0.3	-0.2	0.1	-0.1	-1.3	0.5
Medical care	0.3	0.3	0.4	-0.1	-0.2	0.2	3.1
Recreation	0.3	0.4	-0.4	-0.1	0.1	0.1	1.5
Education, comm.	-0.4	-0.3	0.0	0.1	0.2	-0.1	0.7
Other good, serv.	0.5	0.4	0.2	0.2	0.2	0.6	3.4
Commodities	0.4	0.0	-0.2	-0.1	-0.1	-0.4	-0.2

Source: Haver Analytics.

- The November inflation report showed continued stickiness in price pressures. Core CPI prices rose 0.31% m/m in the month, in line with consensus expectations. Three-month annualized core CPI rose by one tick to 3.7% in November. Headline inflation came in at 0.3% m/m in the month, also in line with forecasters' predictions. In year-over-year terms, headline inflation rose by one tick to 2.7%, while core was unchanged at 3.3%.
- But underneath the hood, the picture was not so bad. Services inflation came down as transportation costs showed softening price pressures and shelter costs edged down. The strength in inflation in November came from hotter goods prices in large part due to higher prices for used cars. Stripping out used cars, core goods registered a modest increase of just 0.1% m/m. Today's report won't prevent the Fed from cutting by 25bps later this month, especially with the labor market showing a clear cooling trend. But the threat of a pause and a stretched out easing cycle is growing if growth doesn't slow or aggregate price pressures don't cool a bit more.
- Shelter costs came in at a very tame 0.3% m/m, with both Owner's Equivalent Rent and the Rent sub-index registering 0.2% in the month. Lodging away from home spiked in the month partly offsetting the softening trend in the major shelter sub-indices. Shelter prices have been very volatile so we won't celebrate today's data just yet, but it's

worth noting that OER and the rent index came in at their lowest pace since the first half of 2021, which is also consistent with their pre-pandemic pace. The path to 2% critically depends on more favorable shelter readings and there is no doubt the Fed will be very pleased with this aspect of the report.

- Non-housing services costs came in at 0.3% m/m for the second straight month. Transportation services costs came down as car insurance and airfare prices both came back to earth but medical services proved sticky in the month. Our analysis finds that the relationship between wages and non-housing services has become much weaker post-pandemic and view much of the recent strength in this part of the basket as idiosyncratic, consistent with Powell's characterization of "catch-up" forces still having an outsized influence.
- Core goods prices rose 0.3% with most of that due to a pickup in used car prices which rose by 2% m/m following a 2.7% increase in October. The Manheim Used Car price index suggests we could see a few more strong used car price readings in the future but this won't put as much upward pressure on the PCE price index because used cars have a smaller weight in that index (1.1% vs. 1.9% in CPI).
- Overall, today's report is better than it looked and this afternoon's CPI trim measure might show better progress given the contribution from used cars and medical services. Today's data implies core PCE inflation for November is also likely to come in the 0.3% range, but we will update that estimate after the PPI data later this week.

Implications & actions

Re: Economic forecast — We expect the Fed will cut by 25bps in December but the risk of pauses in 2025 is growing after another 0.3% m/m core CPI reading.

Re: Markets — Bond yields fell after today's CPI report likely because of the favorable composition while the dollar initially declined but has since retraced most of the initial decline.

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