

Consumer Price Index

October 2024

November 13, 2024

Strategy realized



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Understanding inflation dynamics

- Near-term Consumer Price Index (CPI) bumpiness doesn't detract from the fact that fundamentals remain disinflationary. That narrative will remain in place into early 2025, but it could then change as deregulation could support upside risks to growth and inflation, and immigration restrictions could lead to renewed labor market tightness and wage pressures. Going into 2026, tariffs and tax cuts could engender further inflationary pressure.
- Headline CPI rose 0.2% month over month (m/m) in October, as expected, with energy prices unchanged and food prices up a modest 0.2%. Core CPI rose a moderate 0.3%, as it did in August and September, pointing to lingering pressures from shelter cost inflation.
- Headline CPI inflation firmed 0.2 percentage points (ppt) to 2.6% year over year (y/y) – still near the lowest since February 2021 – while core CPI inflation held at 3.3% y/y – still near its lowest since April 2021.
- Short-term inflation dynamics underscore the increased core inflation pressures, largely concentrated in housing and auto insurance. Core CPI inflation rose to 3.6% on a three-month annualized basis but held at 2.6% on a six-month annualized basis. Similarly, headline CPI inflation firmed to 2.5% on a three-month annualized basis, but it eased to 1.4% on a six-month annualized basis.
- We foresee headline CPI inflation closing the year around 2.4% and core CPI inflation just below 3% in December.
- Given robust but gently decelerating economic activity, strong productivity growth and softening inflation, we continue to expect a 25 basis points (bps) cut to 4.25%-4.50% in December. Thereafter, we believe the Fed may decide to slow the recalibration process as policymakers more carefully feel their way to a neutral policy stance. Considering the elections results, we now assume a rate cut at every other meeting in 2025, for a total of 100bps of easing, down from 150bps previously.



Energy prices were unchanged as a 0.9% drop in gas prices was offset by 1.2% increase in electricity prices and a 0.3% gain in utility gas service prices.

Food prices rose a modest 0.2% with grocery prices up 0.1% and restaurant prices also rising a modest 0.2% – below their pre-pandemic trend. Grocery prices are up 1.1% y/y while restaurant prices are up 3.8% y/y – the lowest since April 2021.

Core goods prices were flat. Apparel prices fell back sharply (down 1.5%) after an odd 1.1% surge in September. New vehicle prices were unchanged on the month but used vehicle prices rose 2.7% – the largest monthly gain since May 2023. Overall, core goods prices are falling and have been falling since January – and are down 1.0% versus a year ago.

Core services prices posted a more moderate 0.3% gain in October – following two consecutive 0.4% advances. Shelter costs rose 0.4% after posting their smallest post-pandemic advance in September, but the news wasn't all bad. The 0.3% rise in rents – the same as in September – was tied for the smallest post-pandemic gain. Meanwhile, owners' equivalent rent rose a moderate 0.4%. Hotel prices rebounded 0.5%. Shelter cost inflation remained at 4.9% y/y, its lowest since February 2022, with rent inflation at 4.9% y/y and owners' equivalent rent inflation at 5.2%. Both are slowly trending lower.

Medical care service prices rose 0.4% after a strong 0.7% gain in September. The stronger gains over the last couple of months have been driven by physicians, dentists and eye care costs rising. Auto insurance prices eased 0.1%, but the pace of inflation eased to a still elevated pace of 14% y/y. Airfare also posted a robust 3.2% monthly advance, pushing airfare inflation up to a modest 4.1% y/y.

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2408-36946-CS

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