BNY | INVESTMENTS | Insight INVESTMENT

INSTANT INSIGHTS

October 10, 2024

Too Soon to Declare Victory on Inflation

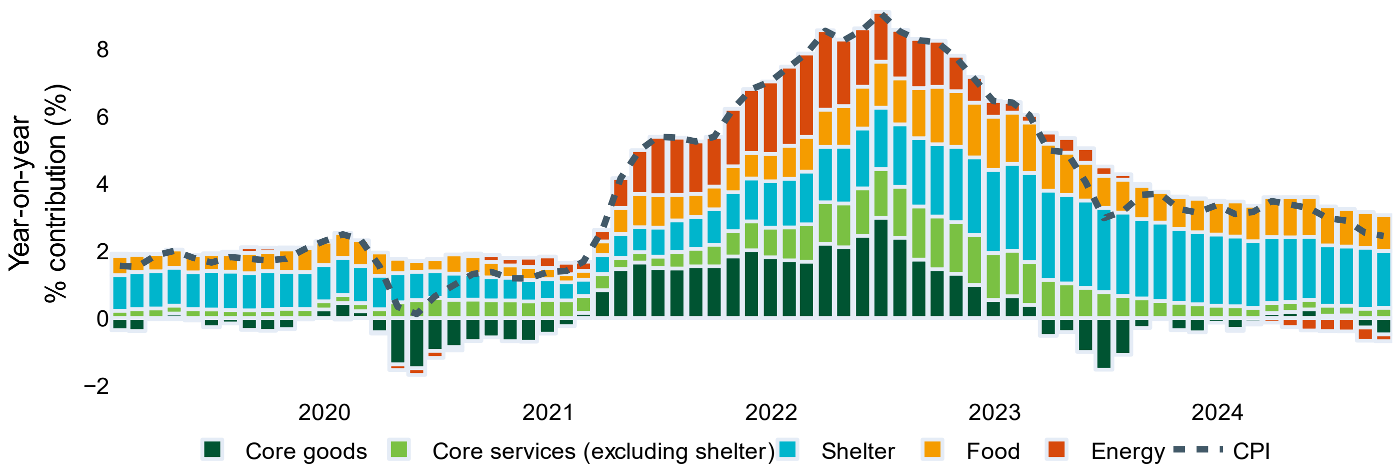
Headline and core consumer prices rose 0.2% and 0.3%, respectively, in September. This took headline Consumer Price Index (CPI) down from 2.5% to 2.4%, the slowest pace since 2021. However, Core CPI continued to trend sideways, rising slightly from 3.2% to 3.3%.

Although progress on headline CPI is encouraging, we expect core inflation's path to the Federal Reserve's (the "Fed") 2% target to be protracted. While our base case is that the Fed will likely remain comfortable cutting rates over the coming months, we think stubborn core inflation means that is too soon to declare total victory on inflation just yet.

ENERGY AND CORE GOODS SECTORS CONTINUE TO BE DISINFLATIONARY

The energy and core goods components continued to have a disinflationary impact on headline CPI on a year-on-year basis (Figure 1)[1]. However, in September core goods prices rose 0.2% (the first increase since April), with used cars snapping three months of declines and apparel rising 1.1%. Food prices also notably rose 0.4% in September.

FIGURE 1: CORE GOODS AND ENERGY CONTINUED TO CONTRIBUTE NEGATIVELY TO CPI YEAR-ON-YEAR



Charts are provided for illustrative purposes only.

Encouragingly, the "shelter" component slowed from 5.2% to 4.9% over the year to September, its lowest level since February 2022. This was driven by easing rental components and weaker hotel prices. Excluding shelter, CPI was 1.1% year-on-year.

However, the "supercore" components (which exclude housing) continue to remain stubborn (Figure 2) thanks to accelerating inflation in transportation services (particularly airline fares, leased vehicles and public transport) and medical services.

1 Bureau of Labor Statistics, Macrobond, Insight, October 2024

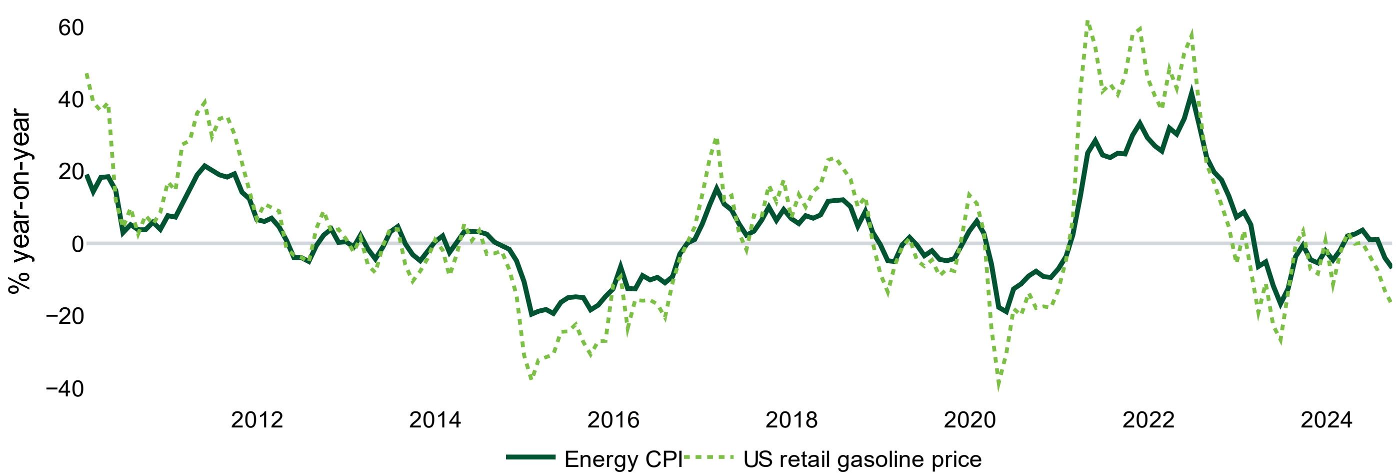
FIGURE 2: "SUPERCORE" CPI CATEGORIES REMAIN STUBBORN[2]

Charts are provided for illustrative purposes only.

ENERGY CONTINUES TO PUSH HEADLINE CPI CLOSE TO THE FED'S TARGET

Declining energy prices provided the largest disinflationary impulse in September, falling 1.9%[3]. While energy price trends have been benign even in the face of rising geopolitical tensions in the Middle East, we continue to watch developments closely, as the risk of rising global oil prices cannot be ruled out.

FIGURE 3: ENERGY CONTINUES TO PROVIDE THE MAIN DISINFLATIONARY IMPULSE ON HEADLINE CPI



Charts are provided for illustrative purposes only.

CONCLUSION: TOO EARLY TO DECLARE VICTORY

Headline CPI is getting closer to the Fed's target, but the continued stubborn nature of Core CPI will raise some questions at the Fed. Although the Fed is increasingly confident that inflation is on a sustainable path to meeting its 2% objective, it will likely continue to stress that it is not ready to declare victory on inflation.

2 Bureau of Labor Statistics, Macrobond, Bloomberg, Insight, October 2024
3 Energy Information Administration, Bureau of Labor Statistics, Macrobond, Insight, October 2024

LEARN MORE

Call **1-800-373-9387** or visit **im.bnymellon.com**.

DISCLOSURE

All investments involve risk, including the possible loss of principal. Certain investments have specific or unique risks that should be considered along with the objectives, fees, and expenses before investing.

This material has been provided for informational purposes only and should not be construed as investment advice or a recommendation of any particular investment product, strategy, investment manager or account arrangement, and should not serve as a primary basis for investment decisions. Prospective investors should consult a legal, tax or financial professional in order to determine whether any investment product, strategy or service is appropriate for their particular circumstances. Views expressed are those of the author stated and do not reflect views of other managers or the firm overall. Views are current as of the date of this publication and subject to change. This information contains projections or other forward-looking statements regarding future events, targets or expectations, and is only current as of the date indicated. There is no assurance that such events or expectations will be achieved, and actual results may be significantly different from that shown here. The information is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. References to specific securities, asset classes and financial markets are for illustrative purposes only and are not intended to be and should not be interpreted as recommendations. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission.

The **Consumer Price Index (CPI)** measures the monthly change in prices paid by U.S. consumers. The Bureau of Labor Statistics (BLS) calculates the CPI as a weighted average of prices for a basket of goods and services representative of aggregate U.S. consumer spending. **Headline CPI** is the raw inflation figure reported through the Consumer Price Index (CPI) monthly. **Core CPI** excludes the more volatile food and energy categories.

BNY Investments is one of the world's leading investment management organizations, encompassing BNY's affiliated investment management firms and global distribution companies. BNY, BNY Mellon and Bank of New York Mellon are the corporate brands of The Bank of New York Mellon Corporation and may be used to reference the corporation as a whole and/or its various subsidiaries generally.

Investment advisory services in North America are provided by Insight North America LLC, a registered investment adviser and regulated by the U.S. Securities and Exchange Commission (SEC). Insight North America LLC is associated with other global investment managers that also (individually and collectively) use the corporate brand Insight Investment and may be referred to as "Insight" or "Insight Investment."

Not FDIC-Insured. Not Bank-Guaranteed. May Lose Value.

MARK-619728-2024-10-10
IM-IITSTDVOICMTY-1024

BNY | INVESTMENTS