# INSTANT INSIGHTS

November 13, 2024

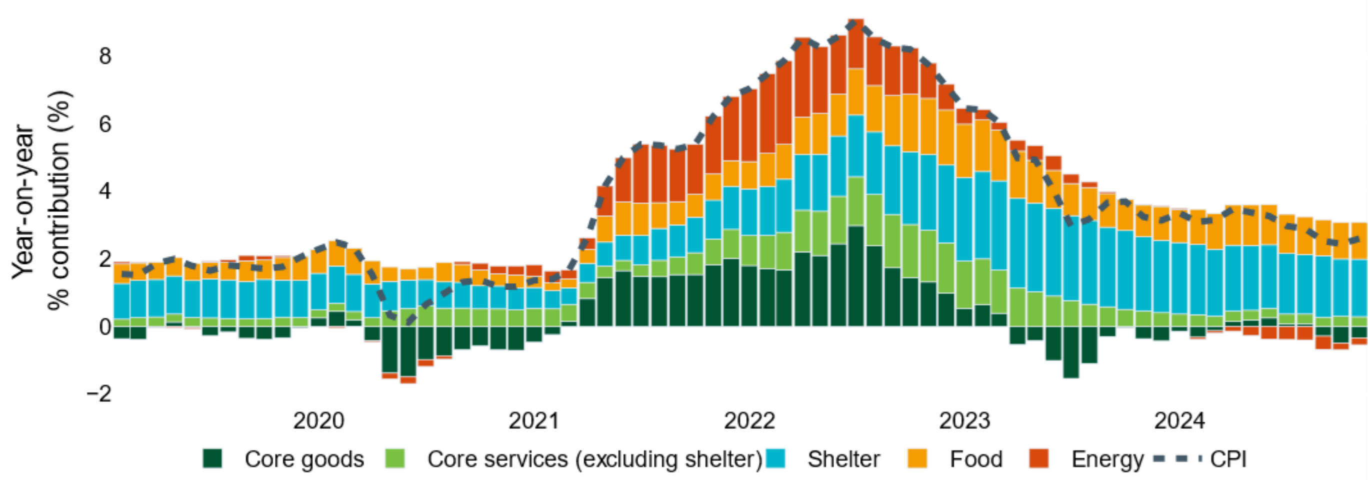
# Tricky Last Mile For CPI

Consumer prices rose 0.2% in October, taking headline Consumer Price Index (CPI) to from 2.4% to 2.6% on a year-over-year (YoY) basis. Core prices rose 0.3%, keeping Core CPI at 3.3% YoY. Although inflation's potential last mile to 2% continues to be tricky, we believe that an overarching disinflationary trend remains in place, allowing the Federal Reserve (the "Fed") to continue executing its rate cutting cycle in the near term.

## ENERGY AND CORE GOODS PRICES CONTINUE DISINFLATIONARY TRENDS

Energy prices were flat in October, with motor fuel prices generally falling but utility prices slightly rising. Core goods prices were also flat as used cars rebounded 2.7% while non-durable goods detracted, such as apparel prices, which fell -1.5%. Food inflation was relatively benign at 0.2% in October.

**FIGURE 1: : ENERGY PRICES CONTINUE TO HELP KEEP HEADLINE CPI DOWN [1]**




Charts are provided for illustrative purposes only.

## CORE SERVICES CONTINUE TO SHOW SLOW PROGRESS

"Stickier" core services inflation categories continued to show slow but steady progress.

Shelter CPI remained steady at 4.9% over the year to October, reflecting stable-to-slightly-easing rental components but slightly higher hotel prices. Excluding shelter, headline CPI was 1.3%.

"Supercore" services (which exclude shelter) also remained relatively stubborn. Transportation services eased slightly but remain hot. For instance, vehicle insurance prices eased while airline fares rose 3.2% YoY in October. Elsewhere, medical services rose from 3.6% to 3.8% YoY (Figure 2).

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

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### FIGURE 2: SUPERCORE SERVICE SECTORS CONTINUE TO RUN RELATIVELY HOT[2]

| % year-on-year | Nov 2023 | Dec 2023 | Jan 2024 | Feb 2024 | Mar 2024 | Apr 2024 | May 2024 | Jun 2024 | Jul 2024 | Aug 2024 | Sep 2024 | Oct 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CPI | 3.1 | 3.4 | 3.1 | 3.2 | 3.5 | 3.4 | 3.3 | 3 | 2.9 | 2.5 | 2.4 | 2.6 |
| Food | 2.9 | 2.7 | 2.6 | 2.2 | 2.2 | 2.2 | 2.1 | 2.2 | 2.2 | 2.1 | 2.3 | 2.1 |
| Energy | -5.4 | -2 | -4.6 | -1.9 | 2.1 | 2.6 | 3.7 | 1 | 1.1 | -4 | -6.8 | -4.9 |
| Core CPI | 4 | 3.9 | 3.9 | 3.8 | 3.8 | 3.6 | 3.4 | 3.3 | 3.2 | 3.2 | 3.3 | 3.3 |
| Core Goods | 0 | 0.2 | -0.3 | -0.3 | -0.7 | -1.3 | -1.7 | -1.8 | -1.9 | -1.9 | -1 | -1 |
| Shelter | 6.5 | 6.2 | 6 | 5.7 | 5.7 | 5.5 | 5.4 | 5.2 | 5.1 | 5.2 | 4.9 | 4.9 |
| Transport Services | 10.1 | 9.7 | 9.5 | 9.9 | 10.7 | 11.2 | 10.5 | 9.4 | 8.8 | 7.9 | 8.5 | 8.2 |
| Medical Services | -0.9 | -0.5 | 0.6 | 1.1 | 2.1 | 2.7 | 3.1 | 3.3 | 3.3 | 3.2 | 3.6 | 3.8 |
| "Supercore" CPI | 3.9 | 3.9 | 4.3 | 4.3 | 4.8 | 4.9 | 4.8 | 4.7 | 4.5 | 4.5 | 4.3 | 4.4 |

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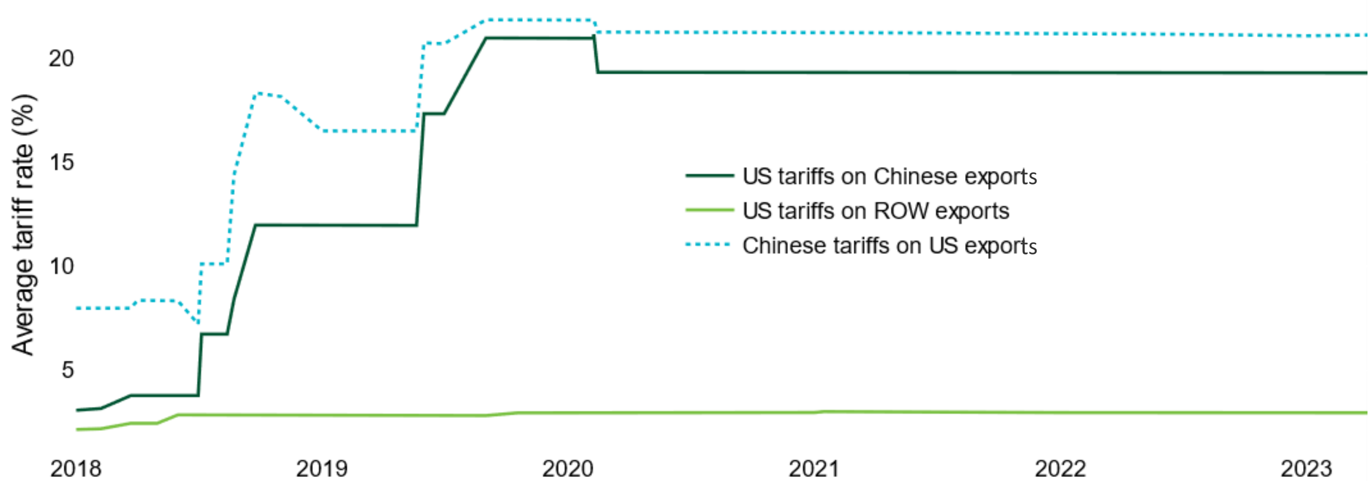
## NEW TARIFFS MAY POTENTIALLY IMPOSE LONGER-TERM INFLATIONARY PRESSURES

Markets are grappling with the potential impacts of the incoming administration's policies. In our view, President-elect Donald Trump's proposed tariffs appear to pose the clearest risks to inflation for his upcoming term.

Nonetheless, it remains to be seen how aggressively the administration will follow through on its promises of imposing major tariffs, including across-the-board import duties. Further, we suspect that it may take some time to implement policy and may not feed into inflation indices in the near term.

### FIGURE 3: HIGHER TARIFFS POSE POTENTIAL UPSIDE INFLATION RISKS THROUGH PRESIDENT-ELECT TRUMP'S TERM[3]

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## WE EXPECT THE FED TO STAY THE COURSE

In the near-term, although the last mile to 2% inflation may be bumpy, we believe the Fed will likely continue to execute its rate cutting cycle as core services inflation remains sticky.

In our view, another rate cut in December remains a reasonable base case.

2. Bureau of Labor Statistics, Macrobond, Bloomberg, Insight, November 2024
3 Chad P Brown, Peterson Institute for International Economics, April 2023: https://www.piie.com/research/piie-charts/2019/us-china-trade-war-tariffs-date-chart

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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. **Sticky** inflation refers to a persistent economic scenario where prices for goods and services do not adjust quickly to changes in supply and demand dynamics. **Supercore** inflation equals the inflation of a basket of goods and services, minus the food and energy inflation, and minus the housing inflation. **ROW** is rest of world exports.

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