ECONOMIC UPDATE
REGIONS
November 12, 2020

October Consumer Price Index: Inflation Reverses Course In October

- The total CPI was <u>unchanged</u> in (up 0.045 percent unrounded) in October; the core CPI was also unchanged (up 0.012 percent unrounded)
- On a year-over-year basis, the total CPI is <u>up</u> 1.2 percent and the core CPI is <u>up</u> 1.6 percent as of October

The total CPI and the core CPI were each unchanged in October, falling short of the pair of 0.1 percent increases our forecast anticipated. The unchanged headline and core prints come courtesy of some surprising details, such as declines in gasoline prices and lower costs for medical care. The flat October readings leave the total CPI up 1.2 percent and the core CPI up 1.6 percent year-on-year; keep in mind that core CPI inflation tends to run well ahead of core inflation as measured by the PCE Deflator, the FOMC's preferred gauge of inflation. Either way, there are few signs of meaningful and sustained inflation pressure at present, and this is likely to remain the case for some time to come.

As measured in the CPI data, retail gasoline prices fell by 1.6 percent on a not seasonally adjusted basis, which translated into a 0.5 percent decline in the seasonally adjusted data. The decline in unadjusted pump prices was larger than the decline reported in the EIA data, which is what we incorporate into our forecast, which anticipated prices would be flat on a seasonally adjusted basis. This accounts for part of our forecast miss on the total CPI. The total energy index was up 0.1 percent in October, helped along by a 1.2 percent increase in electricity prices, but on an over-the-year basis total energy costs are down 9.2 percent as of October. Food prices were up by 0.2 percent in October, with prices for food consumed at home up by 0.1 percent and prices for food consumed away from home up 0.3 percent. On an over-the-year basis, the total food index is up 1.2 percent.

Medical care costs took a surprising tumble in October, with the 0.4 percent decline the largest monthly decline since October 1971 which, in highly technical terms, was a long, long time ago. The decline in medical care costs accounts for our forecast miss on the core CPI and contributed to our miss on the total CPI. Somewhat ironically in the midst of the recent, and ongoing, upturn in COVID-19 cases which has led to a greater incidence of hospitalization, prices for inpatient hospital services declined in October, as measured in the CPI data. A decline in health insurance premiums also contributed to the decline in medical care costs in October, though this still leaves premiums up 10.2 percent year-on-year. Apparel prices fell by 1.2 percent in October, only slightly more than our forecast anticipated; there is evidence of residual seasonality in this series, so we're not reading too much into the October data. After September saw the largest monthly increase in the life of the series, which dates back to 1953, prices for used motor vehicles fell by 0.1 percent in October but nonetheless are up 11.5 percent year-on-year.

Primary rents and owners' equivalent rents were each up by 0.2 percent in October, but the pace of rent growth, particularly primary rents, has clearly slowed. Primary rents were up 2.7 percent year-on-year in October and are rising more slowly than at any time since the aftermath of the 2007-09 recession. We expect market rents to remain under pressure in the months ahead, given the considerable degree of labor market slack and an intimidatingly large backlog of multi-family units under construction. We do find it interesting that growth in owners' equivalent rents continues to ease despite a marked acceleration in the pace of house price appreciation – recall that owners' equivalent rents measure what homeowners perceive they could charge were they to put their home up for rent. For whatever reason(s), rapid house price appreciation has not had much, if any, impact on perceived rental values, even if it seems there would be a link between the two.

Core goods prices rose by 0.1 percent, a fifth consecutive monthly increase which leaves them up 1.6 percent year-on-year. This string of advances could reflect the effects of a weaker U.S. dollar, and to the extent the dollar continues to weaken, that will remain a source of steady upward pressure on core goods prices. At the same time, however, core services prices remain under pressure, which goes hand in hand with consumer spending on services being more than six percent below the pre-pandemic peak and ongoing restrictions on economic activity that continue to depress capacity in the broad services sector. This is likely to remain the case for at least the next several months.

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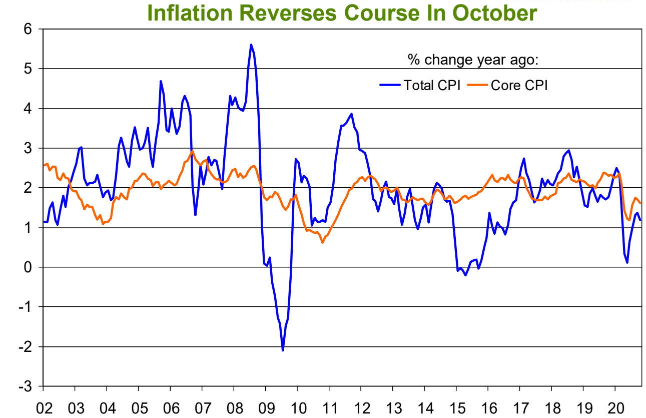

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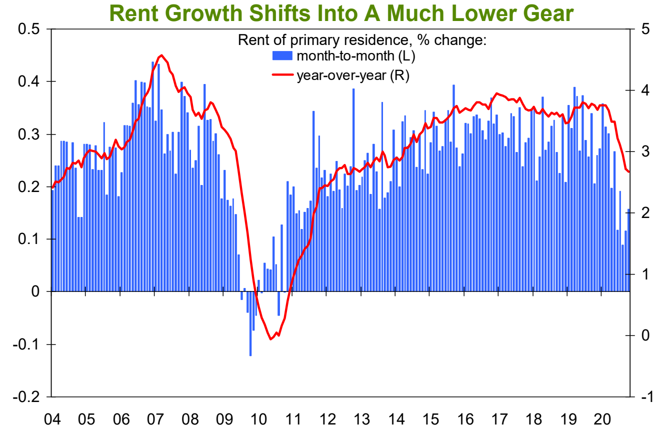
Rent Growth Shifts Into A Much Lower Gear



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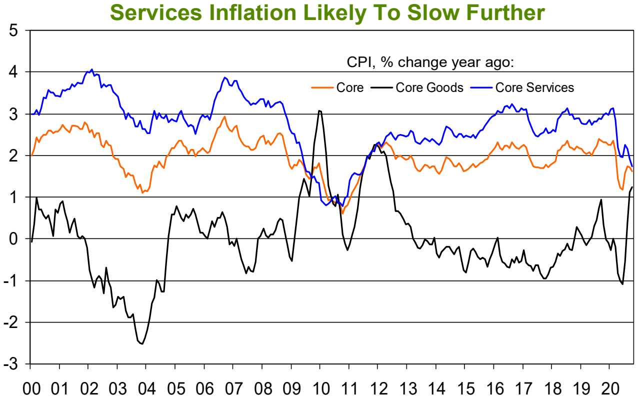
Services Inflation Likely To Slow Further



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