ECONOMIC UPDATE

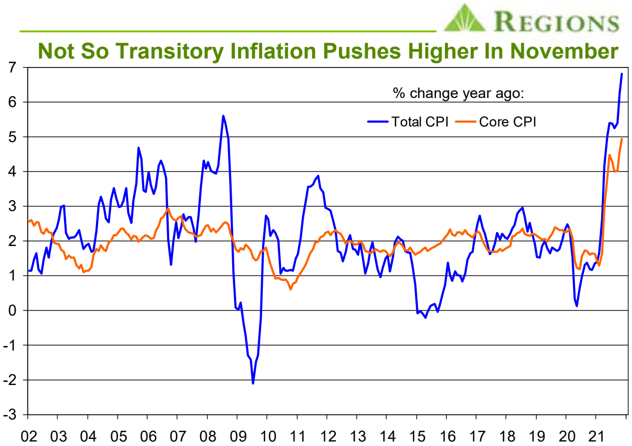
REGIONS

December 10, 2021

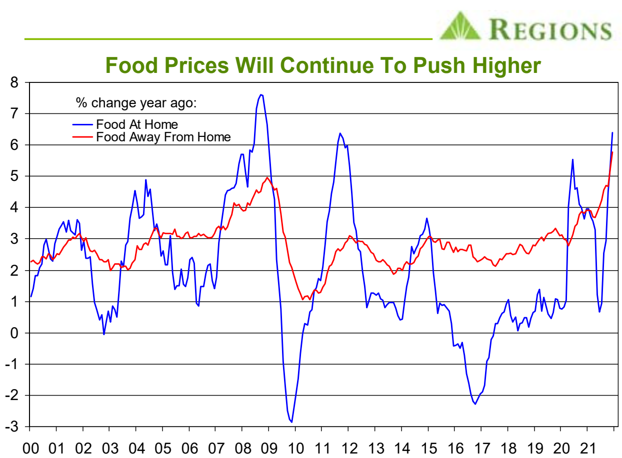
November Consumer Price Index: Not So Transitory Inflation Pushes Higher

- The total CPI rose by 0.8 percent in November (up 0.779 percent unrounded); the core CPI rose by 0.5 percent (up 0.534 percent unrounded)
- On a year-over-year basis, the total CPI is up 6.8 percent and the core CPI is up 4.9 percent as of November

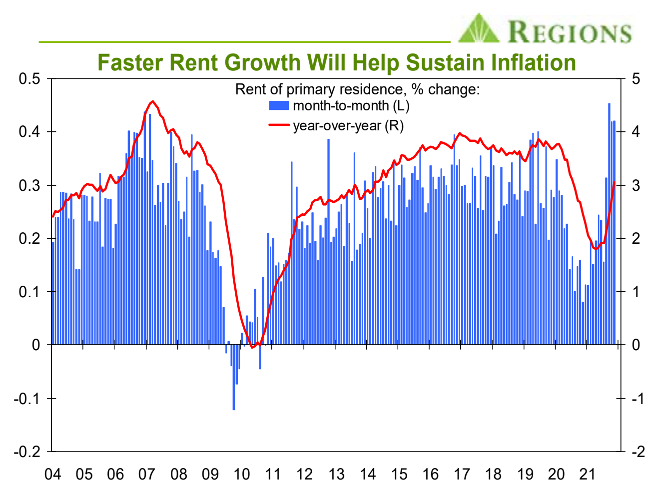
The total CPI rose by 0.8 percent in November, matching our above-consensus forecast, while the core CPI rose by 0.5 percent, matching the consensus forecast but below our forecast of a 0.6 percent increase. On an over-the-year basis, the total CPI is up 6.8 percent as of November, the largest such increase since June 1982, while the core CPI is up 4.9 percent, the fastest rate of core CPI inflation since June 1991. Energy and core goods (consumer goods excluding food and energy) were the primary drivers of the gain in the total CPI, while medical care costs increased by less than our forecast anticipated, accounting for our miss on the core CPI. More broadly, lower gasoline prices will provide some relief in the December CPI, but while that will hold down headline inflation, core inflation will remain elevated. While there are signs that global supply chain and logistics bottlenecks have begun to ease, it will take some time before that is apparent in core goods prices, and it will take more meaningful and sustained easing in these supply-side constraints before we see a pronounced easing in core goods prices. At the same time, we look for faster growth in services prices, including rents and medical care costs, and robust growth in labor costs to keep inflation easily above the FOMC's 2.0 percent target rate through year-end 2022.



Energy prices rose by 3.5 percent in November and stand 33.3 percent higher year-on-year. For a second straight month, gasoline prices rose by 6.1 percent on a seasonally adjusted basis. On a not seasonally adjusted basis, gasoline prices were up by 2.8 percent, but the seasonal adjustment factor was geared for a decline of roughly that magnitude, hence the increase reported in the seasonally adjusted data. Retail prices for electricity and residential gas service rose by much less in November than was the case in October. Recent declines in gasoline and natural gas prices and what thus far has been fairly mild winter weather (it's still early, to be sure) suggest energy will be a fairly benign factor in the December CPI data. Food prices were up by 0.7 percent which, while still a hefty increase, is less severe than the increases seen in the prior two months. Prices for food consumed at home were up by 0.8 percent, leaving them up 6.4 percent year-on-year, with overall food prices up 6.1 percent year-on-year.



Prices for core goods (consumer goods excluding food and energy) rose by 0.9 percent in November, on the heels of a 1.0 percent increase in October. For a second straight month, prices for used motor vehicles were up by 2.5 percent, while prices for new motor vehicles were up by 1.1 percent, the smallest monthly increase since April. Domestic vehicle production has begun to increase, though not yet to the point that there will be meaningful relief on the pricing front as demand for motor vehicle purchases remains strong. On an over-the-year basis, core goods prices were up 9.4 percent as of November, which is something to keep in mind as you process reports of holiday season sales. The retail sales data are not adjusted for price changes, so a good part of what are sure to be outsized year-on-year increases in holiday season sales will be attributable to higher prices, particularly since lean inventories of many consumer goods mean that retailers won't be in a giving mood, in terms of discounts, this holiday season.



Primary rents were up by 0.4 percent in November, leaving them up 3.0 percent year-on-year, with owners' equivalent rents also up 0.4 percent, good for a year-on-year increase of 3.5 percent, the largest such increase since February 2017. The CPI tends to lag other measures of rent growth, and we expect further acceleration in rent growth, particularly as labor market conditions continue to improve, which is one reason we expect inflation to remain above the FOMC's target rate. Medical care costs rose by 0.2 percent in November and are up 1.7 percent year-on-year. When medical care costs rose by 0.5 percent in October, we questioned whether that was a one-off jump or the start of the normalization in medical care costs we'd long been expecting. The softer November print doesn't settle the question, but medical care costs remain oddly restrained and we still expect them to be more of a support for core inflation going forward.

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