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November Consumer Price Index: Fewer, But Persistent, Pockets Of Inflation Pressures

- The total CPI rose by 0.1 percent in November (up 0.097 percent unrounded); the core CPI **rose** 0.3 percent (up 0.285 percent unrounded)
- On a year-over-year basis, the total CPI is **up** 3.1 percent and the core CPI is **up** 4.0 percent as of November

The total CPI rose by 0.1 percent in November, contrary to the flat print we and the consensus expected, while the core CPI rose by 0.3 percent, matching what we and the consensus expected. On an over-the-year basis, the headline CPI is up 3.1 percent and the core CPI is up 4.0 percent as of November. While the headline CPI was a touch firmer than expected, our forecast miss was little more than a rounding error, as our unrounded forecast had the total CPI up by 0.046 percent. While the decline in gasoline prices, which took two-tenths of a point off the monthly change in the total CPI, was as expected, prices for energy services surprised us to the upside, as did owners' equivalent rents, though neither of those was as surprising as the 1.6 percent increase in prices for used motor vehicles reported in the November data. Either way, the broader point remains the same, which is that while inflation pressures continue to ease, there remain pockets of inflation pressures in the services sector which, while fewer in number, are nonetheless proving to be rather stubborn and which are checking the pace at which core inflation is subsiding. Though this does not, at least in our judgment, open the door for further Fed funds rate hikes, it does suggest the door for rate cuts will not open either as soon or as wide as is presently being priced into the markets.

The broad energy index fell by 2.3 percent in November, with a 6.0 percent decline in gasoline prices, on a seasonally adjusted basis, acting as the primary weight. Since hitting \$4.00 a gallon in September gasoline prices are down by over sixteen percent on a seasonally adjusted basis. We bring up seasonal adjustment as this could easily work against the headline CPI in the December data; with the rate of weekly price declines having slowed, the seasonally adjusted December data could show an increase in gasoline prices sufficient to add one-tenth of a point to the change in the headline CPI. To our earlier point, however, prices for residential gas service and for electricity were up by much more than we anticipated in November, stemming the decline in the energy index. The index of food prices was up by 0.2 percent, with prices for food consumed at home up 0.1 percent and prices for food consumed away from home up 0.4 percent.

In the November edition of our *Monthly Economic Outlook*, we discussed some factors behind the marked softening in core goods (consumer goods excluding food and energy) prices over the past several months. That trend remained in place in November, with core goods prices down by 0.3 percent, a decline which stands out even more given the increase in the CPI measure of prices for used motor vehicles. The BLS's measure of core goods prices excluding used motor vehicles fell by 0.6 percent. Core goods prices are down modestly year-on-year, and while this doesn't suggest we're on the verge of another multi-year run of core goods price deflation as was the case in the years prior to the pandemic, it seems unlikely that core goods prices will resume the role as a driver of overall inflation pressures they played after the onset of the pandemic. With many households paring back discretionary spending and the overall shift in spending patterns, away from goods toward services, having helped pull core goods prices lower, it could also be the case that China's ongoing bout of deflation is acting as a meaningful weight on core goods prices. November saw sharp declines in apparel prices and also in prices for household furnishings and appliances as well as electronics. Note that lower goods prices could be a meaningful weight on November retail sales (out Thursday).

This leaves services as the primary source of inflation pressures. Primary rents and owners' equivalent rents were each up by 0.5 percent in November, the latter up from the 0.4 percent increase in October. As is by now well known, the CPI measures of rents, which account for over forty percent of the core, considerably lag market-based measures of rents and, as such, are overstating core CPI inflation. Note that rents carry a much lower weight in the core PCE Deflator, even if the lags are still present. Prices for core services excluding shelter continue to rise at a rapid clip, however, and this is a segment in which labor costs factor more heavily into final prices. We continue to think the pace of prices in this segment will ease, but at a frustratingly slow pace.

