October CPI inflation rises to 2.6% YoY, Core steady at 3.3% YoY

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October's CPI inflation report shows overall inflation rising from 2.4% to 2.6% with Core (ex. food and energy) inflation remaining steady at 3.3%. On a month-on-month basis, overall inflation was 0.2%, for the 4th month in a row, and Core inflation was 0.3%, for the 3rd month in a row. Core inflation seems to be steadying out at current levels (above 3%) and the monthly data at 0.3% shows this could continue for some time. While this is not enough to force the Fed to stop its rate cutting cycle, it does show the path to the 2% target could take even more time and there is a risk that inflation becomes entrenched at structurally higher levels. Add in the election results with the Republican sweep and the possibility of inflationary tax, tariff and immigration policies and the outlook for the Fed becomes increasingly complicated moving into 2025.

There will still be an additional set of CPI inflation and jobs data before the December Fed meeting. Barring any extreme results, we believe the Fed will cut rates by an additional 0.25% in December. The Fed will provide a fresh set of economic estimates at the meeting and we believe it will signal less rate cuts for 2025 than the 1.0% it signaled in the September meeting. Consumer and business optimism could increase in the short-term after the election, bolstering consumption and keeping upward pressure on prices through the beginning of 2025 at least. In the first few months of 2025, we will also learn the priorities of the Trump administration on taxes, tariffs and immigration and how much this could impact the economy and inflation. As a base case, we believe the Fed will cut rates 2 more times in 2025, by 0.25% in March and June, but could then pause its rate cutting cycle as it considers if inflation is continuing towards the 2% target given any policy changes by the new administration.

Some details on the CPI report:

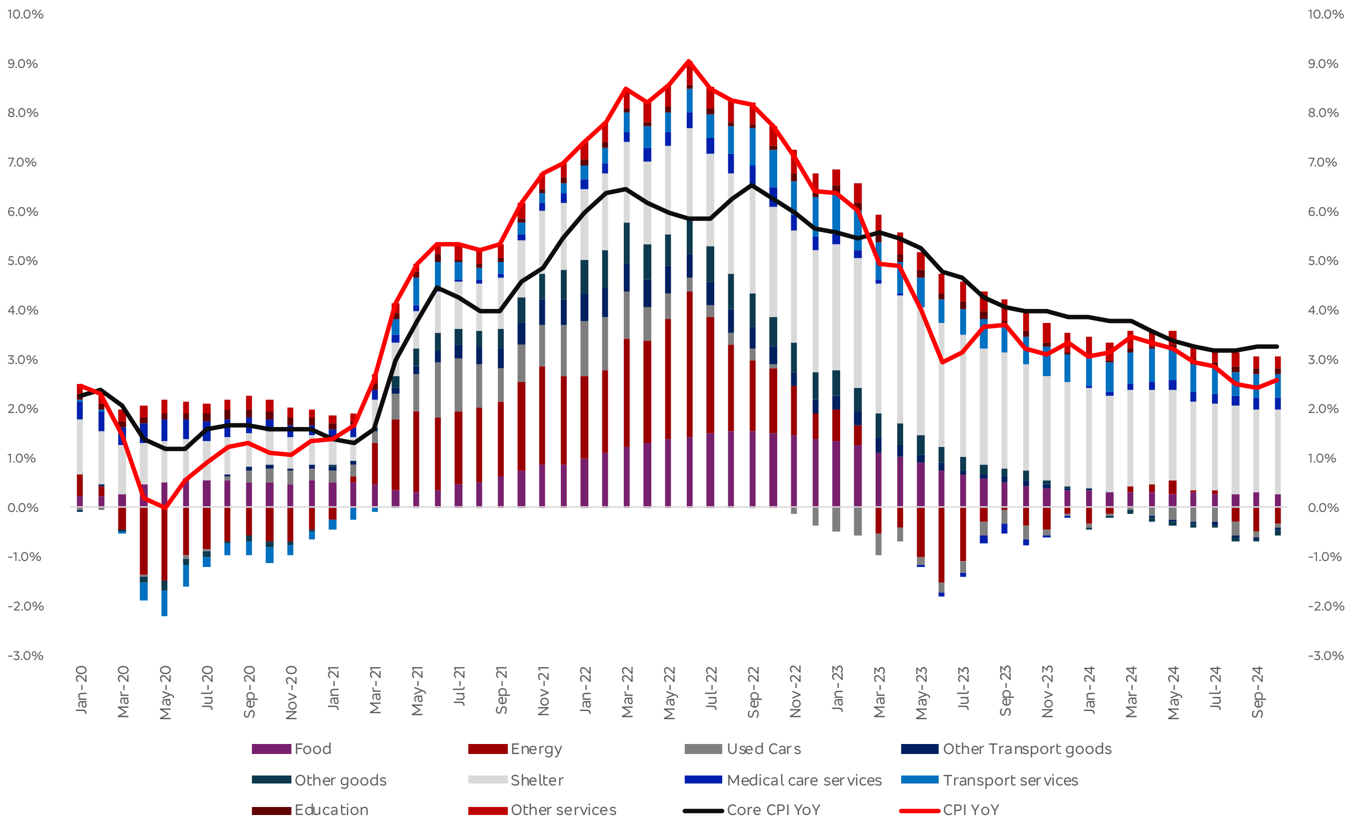
- Headline inflation was 2.6% YoY, rising from 2.4% the previous month. Core inflation stayed steady at 3.3%. On a month-on-month basis, headline inflation was 0.2% and Core was 0.3%.

- Food inflation was 2.1% YoY, holding in the same range since the beginning of the year. While most categories were in the 0-2% range, eggs were an outlier, rising 30.4% YoY, up sharply on an annual basis given the low comparison prices from the end of last year.

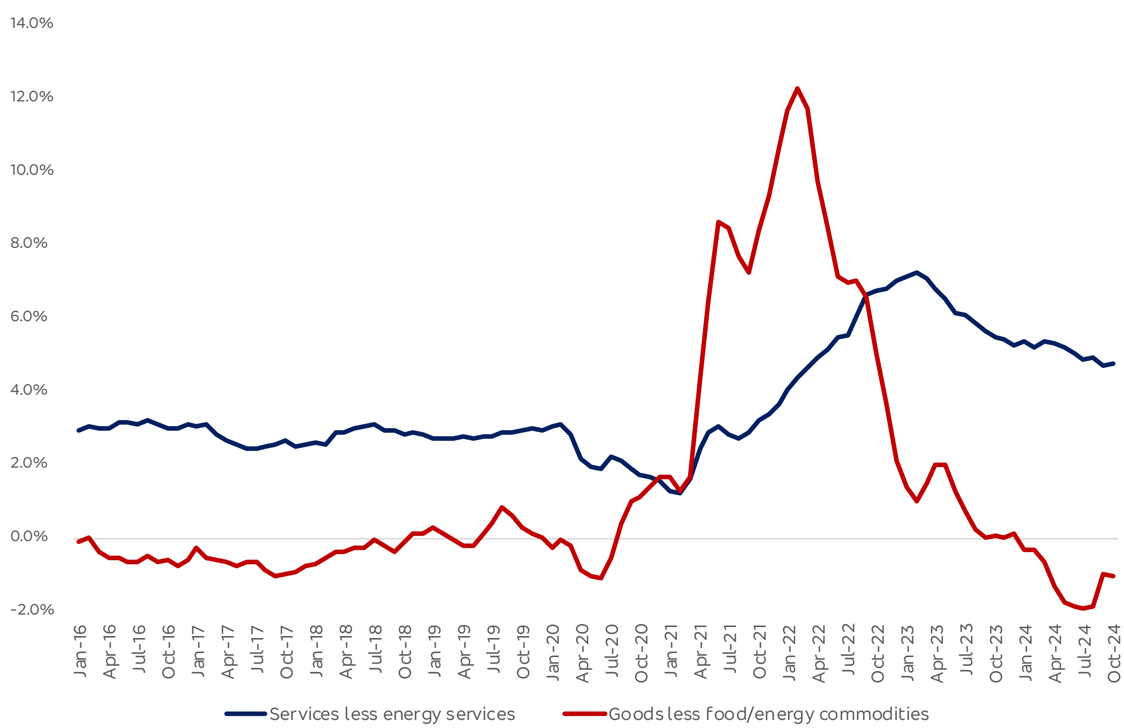
- Goods prices (ex food and energy) were -1% YoY as prices for many goods have been in decline over the past year. Used car prices have fallen 3.4% YoY, but motor vehicle insurance (within Services) has increased 14% YoY.

- Services prices are what is keeping overall inflation high. Services inflation was 4.8% YoY, mainly due to Shelter. Rent of Shelter was up 4.9% YoY while Owners Equivalent Rent (OER) was up 5.2%. On a monthly basis, Shelter was up 0.3% MoM, Rent of Shelter up 0.3% and Owners Equivalent Rent up 0.5%. As Shelter is the largest part of the inflation basket, this needs to decline to the 3% range in order for overall inflation to reach target levels. However, with the monthly readings still high, the annual levels are not likely to decline in the foreseeable future.

Inflation rises to 2.6% YoY while Core inflation remains steady at 3.3%



Goods prices in deflation, but Services inflation still high at 4.8% YoY



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