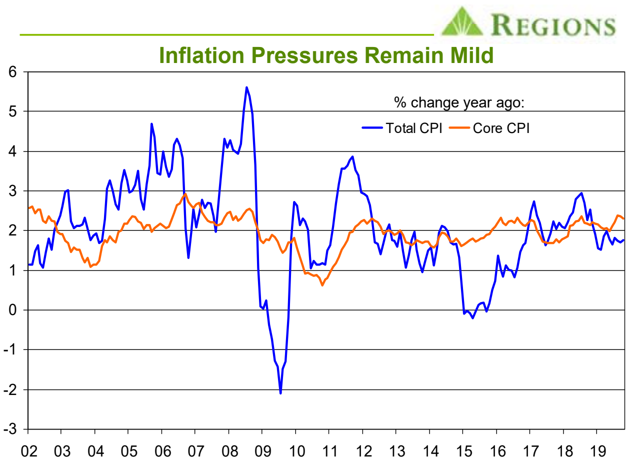
ECONOMIC UPDATE
REGIONS
November 13, 2019

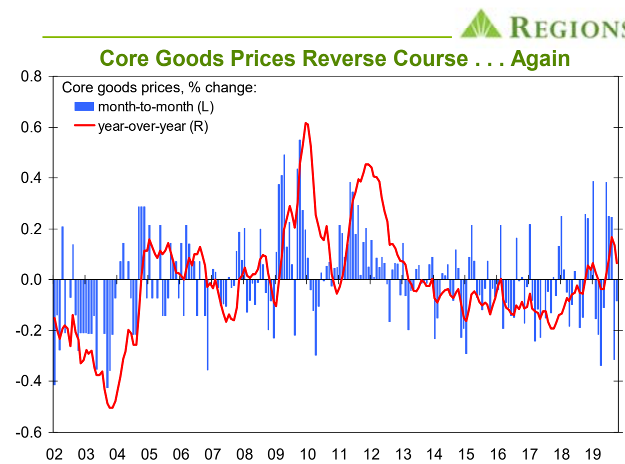
October Consumer Price Index: Inflation Remains On The FOMC's Back Burner

- The total CPI <u>rose</u> by 0.4 percent (0.356 percent unrounded) in October; the core CPI <u>rose</u> by 0.2 percent (0.157 percent unrounded)
- On a year-over-year basis, the total CPI is <u>up</u> 1.8 percent and the core CPI is <u>up</u> 2.3 percent as of October

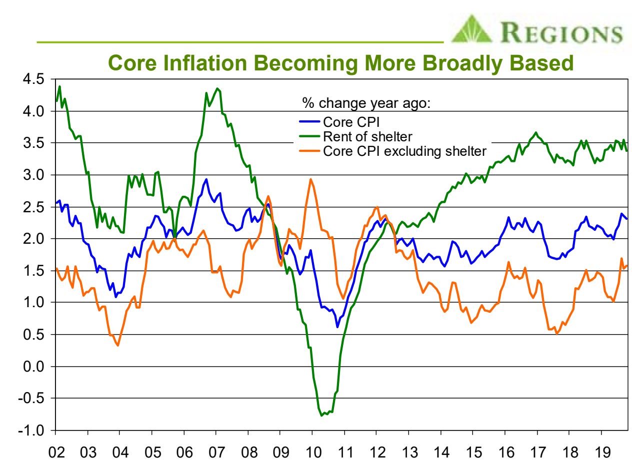
The total CPI rose by 0.4 percent in October, topping the 0.3 percent increase we and the consensus expected, but not by much. The unrounded increase in the headline CPI was 0.356 percent, while our forecast printed 0.326 on an unrounded basis. The core CPI was up by 0.2 percent, as we and the consensus expected. Gasoline prices, grocery store prices, and medical care costs were the prime drivers of the increase in the headline CPI, the first two of which do not factor into core inflation, hence the much smaller increase in the core CPI. On an over-the year basis, the total CPI is up 1.8 percent, while the core CPI is up 2.3 percent, down from 2.4 percent as of September. Keep in mind, however, that the PCE Deflator is the FOMC's preferred gauge of inflation and that over time core CPI inflation has outrun core PCE inflation by 30-40 basis points. As such, it will be some time before core PCE inflation tops the FOMC's 2.0 percent target, and longer still before the FOMC actually becomes concerned about it doing so, as sustaining the expansion and mitigating the downside risks from global trade disputes remain the FOMC's main focus.



On a seasonally adjusted basis, retail gasoline prices rose by 3.7 percent in October, more than our forecast anticipated, thus accounting for our miss on the change in the headline CPI. Unadjusted pump prices uncharacteristically rose in October, and this increase was magnified by the seasonal adjustment process. Still, on an over-the year basis, retail gasoline prices are down 7.3 percent. The broad energy index was up by 2.7 percent in October, with natural gas, electricity, and home heating fuel prices all advancing. Food prices were up by 0.2 percent in October, the largest increase since May. What stands out here, however, is that prices for food consumed at home rose by 0.3 percent, ending a run of weakness that began in June. At the same time, prices for food consumed away from home were up by a below-trend 0.2 percent in October. On an over-the-year basis, the broad food index is up 2.1 percent as of October, with prices for food consumed at home up 1.0 percent and prices for food consumed away from home up 3.3 percent.



Shelter costs were up by just 0.1 percent in October. The 0.1 percent increase in primary rents was the smallest monthly increase since April 2011, though it should be noted that September saw a 0.4 percent increase in this category and primary rents are up 3.7 percent on an over-the-year basis. While October's modest increase likely overstates the case, we continue to expect slowing growth in apartment rents to act as somewhat of a drag on growth in primary rents even as rents on single family homes, now a larger share of the CPI sample, continue to rise at a robust pace. Owners' equivalent rents were up by 0.2 percent in October, leaving them up 3.3 percent year-on-year. Lodging costs fell by 4.4 percent in October, acting as a drag on overall growth in shelter costs



And, it just wouldn't be the CPI without the usual noise in the data on apparel prices and prices for used motor vehicles. Apparel prices fell by 1.8 percent in October after having fallen by 0.4 percent in September, while used motor vehicle prices rose by 1.3 percent in October after having fallen by 1.6 percent in September. At least as reported in the CPI data. The sharp month-to-month moves that have become common in these categories impact core CPI inflation without actually telling us anything meaningful about core CPI inflation. This turns up in the CPI measure of core (i.e., non-food, non-energy) goods prices, which over the summer months was posting large monthly gains that led to the first sustained over-the-year increases in core goods prices in several years. Over the past two months, however, core goods prices have fallen on a month-to-month basis which, if continued, will push the over-the-year comparisons back into negative territory. That core goods prices have been so indecisive make it hard to get a read on the impact of tariffs on prices for consumer goods. While it was never reasonable to expect to see the full impact of the tariffs reflected in final goods prices, it is nonetheless curious that the CPI data do not show more of an impact, which we suspect is more a measurement issue than anything else. Either way, the broader story remains the same – inflation pressures remain mild, and it will be some time before inflation becomes a main concern for the FOMC.

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