ECONOMIC UPDATE

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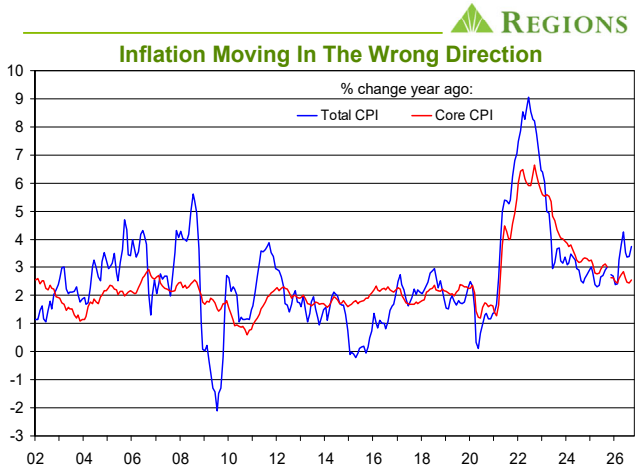
November 10, 2026

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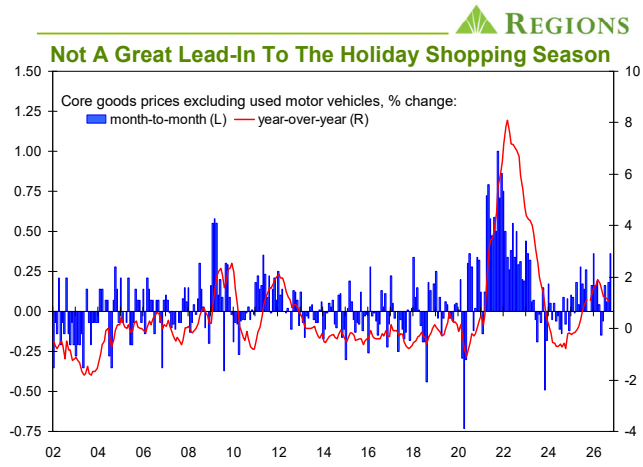
October Consumer Price Index: Inflation Pressures Showing Few Signs Of Letting Up

- The total CPI rose by 0.4 percent in October (up 0.350 percent unrounded); the core CPI was up 0.3 percent (up 0.296 percent unrounded)
- On a three-month annualized basis, the total CPI is up 5.7 percent and the core CPI is up 3.7 percent as of October

The total CPI rose by 0.4 percent in October, double the increase we expected and one-tenth more than the consensus forecast anticipated, while the core CPI was up 0.3 percent, one-tenth more than we and the consensus forecast anticipated. Recall that due to the federal government shutdown, the BLS did not produce the CPI data for October 2025, so there are no over-the-year comparisons to be made, though the larger than expected monthly changes pretty much tell you all you need to know about what those over-the-year comparisons. On a three-month annualized basis, the total CPI is up 5.7 percent as of October, the largest such increase since May, while the core CPI is up 3.7 percent on a three-month annualized basis, the largest such increase since January 2025. While recent declines in crude oil prices figure to translate into lower retail gasoline prices, thus weighing on headline inflation, it is the persistence of core inflation pressures that is of greater concern, including for the FOMC. If you didn't catch it, Fed Governor Waller, speaking in London hours before the release of the CPI data, raised the possibility of a fifty-basis points hike in the Fed funds rate at the December FOMC meeting being appropriate if the October CPI data – the last CPI read prior to that meeting – came in hotter than expected, which proved to be the case. This of course does not ensure a larger rate hike at the December FOMC meeting, but it does seem to lock in at least a twenty-five-basis point hike.

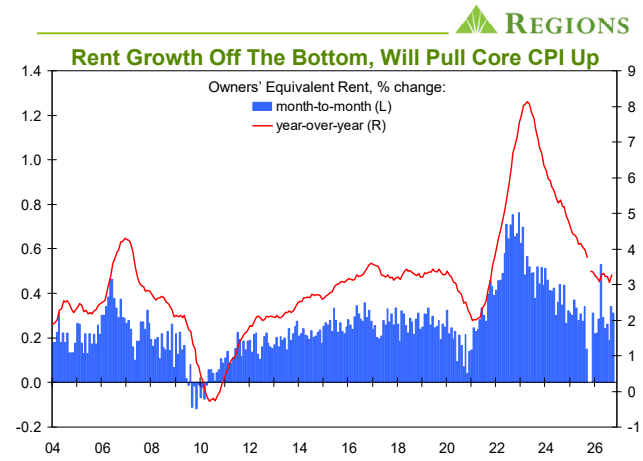


As we noted in our preview of the October data, our forecast anticipated the largest monthly increase in food prices since April, in part reflecting some pass-through of higher fuel and shipping costs. That proved to be the case, with the overall index of food prices rising by 0.5 percent. The overall index of energy prices rose by 0.7 percent in October, milder than September's 5.2 percent increase but still a bit larger than we anticipated as the increase in gasoline prices on a seasonally adjusted basis topped our forecast. We know from other data series that gasoline prices are up by almost forty percent year-on-year, and even if coming weeks bring the declines we expect, the over-the-year increases will still be substantial.



That the increase in the total CPI was double what we expected despite food prices coming in as we expected means price pressures elsewhere were much broader than our forecast anticipated. For instance, while prices for used motor vehicles fell by 1.2 percent, the BLS's measure of core goods prices excluding used vehicles rose by 0.4 percent, the largest monthly increase since January. Prices for furniture, appliances, and electronics posted sizable increases in October, not exactly an inspiring lead-in to the holiday shopping season. Apparel prices rose by one-tenth of a percent in October, and while that is not in and of itself all that noteworthy, what makes it so is that typical seasonal patterns would have yielded a decline in apparel prices on a seasonally adjusted basis, which is what we had built into our forecast. Additionally, prices for medical care commodities rose by 0.5 percent in October, which stands out as this ends a run of nine straight monthly declines.

While core services prices rose by 0.3 percent in October, a smaller increase than that seen in September, the index of "super-core" services (core services excluding shelter) rose by 0.5 percent, the largest increase since May. A sizable jump in motor vehicle insurance premiums and continued outsized increases in costs for maintenance and repair services all contributed to the increase in the super-core services index, as did a 6.6 percent increase in costs of intracity transportation services. At the same time, prices for recreational services were up by 0.9 percent. Though not prime contributors in October, we are keeping an eye on rents, as several market-based measures suggest rent growth has bottomed out. The CPI data show primary rents up 0.2 percent in October with owners' equivalent rents up 0.3 percent, but if we are correct then coming months will see firmer increases which, given that rents account for over forty percent of the core CPI, will have a greater impact on core CPI inflation than on core PCE inflation where rents carry less than half the weight.



The more immediate concern is the persistence of inflation pressures, which are showing few signs of abating. While some of the October increases in individual components seem more one-off in nature, that is true in any given month, and broader underlying price pressures continue to stir. This will likely keep the FOMC in play into early 2027.

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