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INSTANT INSIGHTS

December 11, 2024

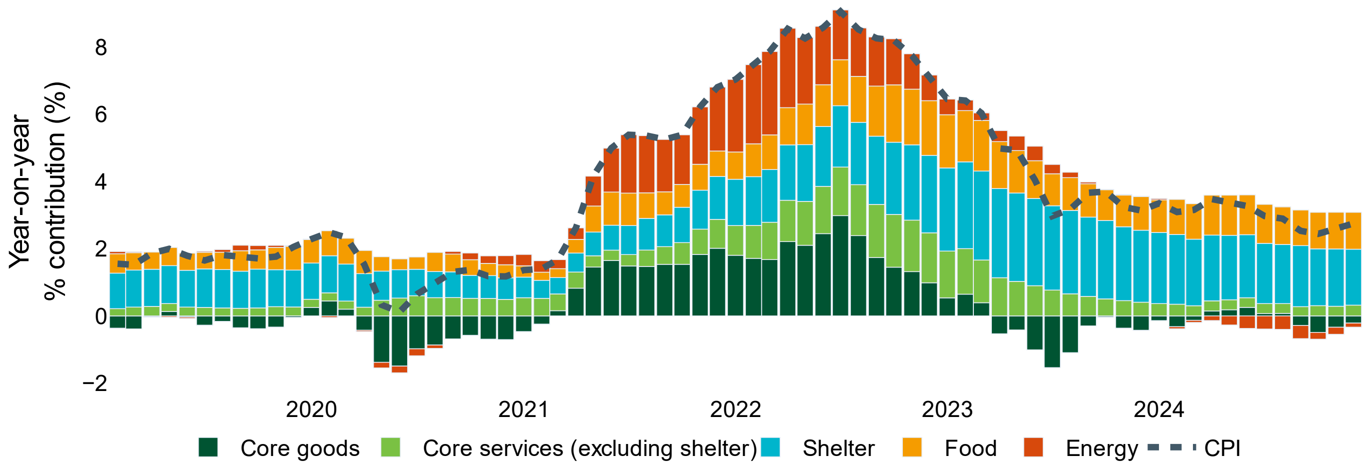
Disinflation In The Right Places?

Headline and core consumer prices rose 0.3% in November, taking CPI from 2.6% to 2.7% and keeping core CPI at 3.3% year-over-year (YoY). Both were in line with market expectations. Although at first glance this may look like another hiccup on the path to the Federal Reserve's (the "Fed's") 2% target, we expect the Fed to be encouraged by progress across "sticky" core services components. As such, a rate cut next week remains a sensible base case, in our view.

CORE SERVICES PRICES CONTINUE TO EASE

Core goods prices rebounded somewhat, led by a pickup in used cars, new vehicles, and household furnishings and supplies. Elsewhere, energy prices rose 0.2% in November, largely due to a 0.6% increase in gasoline prices.

FIGURE 1: CORE GOODS PRICES DISPLAY A MODEST REBOUND [1]



Charts are provided for illustrative purposes only.

However, the Fed watches the "stickier" core services inflation components more closely, and they showed progress in most areas. For example, rental components rose by 0.2% – the slowest monthly increase since 2021 – and shelter slowed from 4.9% to 4.7% YoY, its slowest since 2022. Excluding shelter, CPI was only 1.6% over the past 12 months.

The "supercore" services components (which exclude shelter) were also encouraging. Transportation services were flat in November, helped by easing inflation in airline fares, and medical care services inflation fell slightly (Figure 2).

1 Macrobond, Bureau of Labor Statistics, Bloomberg, Insight, December 2024

FIGURE 2: CORE SERVICES SHOW ENCOURAGING PROGRESS[2]

% year-on-year	Dec 2023	Jan 2024	Feb 2024	Mar 2024	Apr 2024	May 2024	Jun 2024	Jul 2024	Aug 2024	Sep 2024	Oct 2024	Nov 2024
CPI	3.4	3.1	3.2	3.5	3.4	3.3	3	2.9	2.5	2.4	2.6	2.7
Food	2.7	2.6	2.2	2.2	2.2	2.1	2.2	2.2	2.1	2.3	2.1	2.4
Energy	-2	-4.6	-1.9	2.1	2.6	3.7	1	1.1	-4	-6.8	-4.9	-3.2
Core CPI	3.9	3.9	3.8	3.8	3.6	3.4	3.3	3.2	3.2	3.3	3.3	3.3
Core Goods	0.2	-0.3	-0.3	-0.7	-1.3	-1.7	-1.8	-1.9	-1.9	-1	-1	-0.6
Shelter	6.2	6	5.7	5.7	5.5	5.4	5.2	5.1	5.2	4.9	4.9	4.7
Transport Services	9.7	9.5	9.9	10.7	11.2	10.5	9.4	8.8	7.9	8.5	8.2	7.1
Medical Services	-0.5	0.6	1.1	2.1	2.7	3.1	3.3	3.3	3.2	3.6	3.8	3.7
"Supercore" CPI	3.9	4.3	4.3	4.8	4.9	4.8	4.7	4.5	4.5	4.3	4.4	4.2

Colour scale: 0, 2, 4, 6, 8, 10

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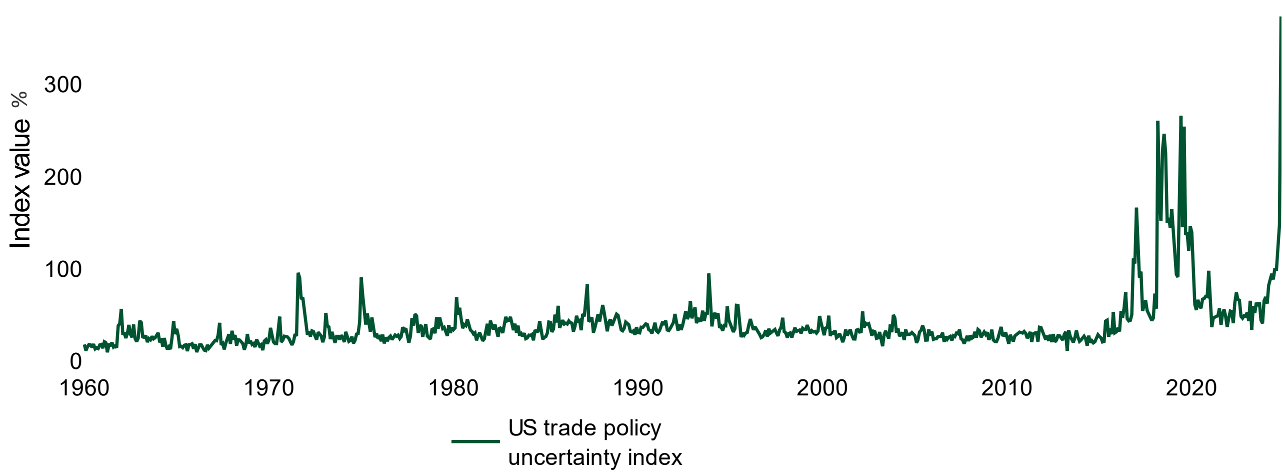
TRADE POLICY REMAINS A WILDCARD OVER THE COMING YEARS

Markets are still trying to figure out the impact of the incoming Trump administration's proposed policies, particularly around trade and tariffs. An index maintained by Economic Policy Uncertainty tracking US trade policy uncertainty (by tracking newspaper coverage and professional economic forecasts) has recently spiked to all-time highs (Figure 3).

Nonetheless, we suspect that the potential effects of President-Elect Trump's policies will take time to reverberate across the economy and, as such, are unlikely to be a near-term consideration for the Fed as it continues its rate cutting cycle.

FIGURE 3: TRADE POLICY UNCERTAINTY INDEX HAS SPIKED SINCE THE ELECTION[3]



Charts are provided for illustrative purposes only.

WE EXPECT THE FED TO STAY THE COURSE OVER THE NEAR TERM

Inflation is still fundamentally trending in the right direction, in our view. While trade policy may be a medium-to-longer-term consideration for the Fed, we expect the Fed to continue its rate cutting cycle over the coming months.

2. Macrobond, Bureau of Labor Statistics, Bloomberg, Insight, December 2024
3 Macrobond, Economic Policy Uncertainty, December 2024

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DISCLOSURE

The **Consumer Price Index (CPI)** measures the monthly change in prices paid by U.S. consumers. The Bureau of Labor Statistics (BLS) calculates the CPI as a weighted average of prices for a basket of goods and services representative of aggregate U.S. consumer spending. **Headline CPI** is the raw inflation figure reported through the Consumer Price Index (CPI) monthly. **Core CPI** excludes the more volatile food and energy categories. **Sticky** inflation refers to a persistent economic scenario where prices for goods and services do not adjust quickly to changes in supply and demand dynamics. **Supercore** inflation equals the inflation of a basket of goods and services, minus the food and energy inflation, and minus the housing inflation.

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