AGRON NICAJ
US Economist

Economic Research Office

T: +1 (646) 357 6180
E: anicaj@us.mufg.jp

MUFG Bank, Ltd.
A member of MUFG, a global financial group

Inconclusive price growth

November 13, 2024

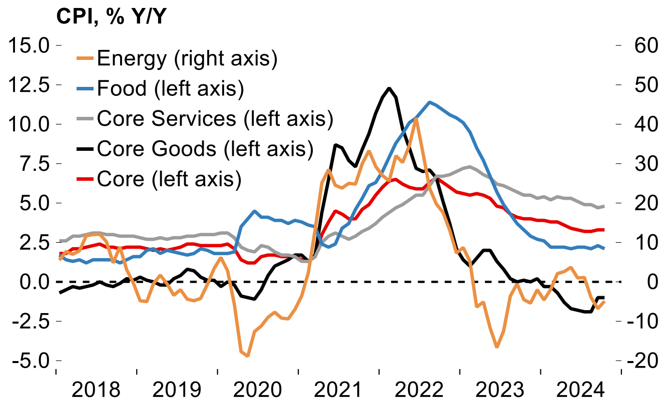
- Annual growth in core CPI held steady at 3.3% in October. On a monthly basis, growth eased slightly to an annualized 3.4%, much of which was driven by the shelter component. Price growth was largely unchanged in key components including core goods, energy, and food.
- Monthly growth in core, median, and trimmed-mean CPI all indicate that price growth remains elevated above what would be consistent with annual 2% inflation. Despite this, the trajectory of interest rate cuts laid out in the FOMC Summary of Economic Projections is unlikely to change, and another 25bps cut can be expected next month.

Inflation held steady

Growth in the Consumer Price Index (CPI) held steady in October, with annual inflation of core prices remaining at 3.3% (Chart 1). On a monthly basis, core price growth eased slightly to 0.28% (3.4% annualized), down from 0.31% (3.8% annualized) in September. Of the CPI components, price growth of core services excluding shelter slowed, contributing 0.08 percentage points to monthly growth in October, down from 0.14 percentage points in September. Conversely, shelter inflation accelerated, contributing 0.14 percentage points in October compared to 0.08 percentage points in September. Core goods, energy, and food contributed 0.02 percentage points combined to monthly CPI inflation in October (Chart 2).

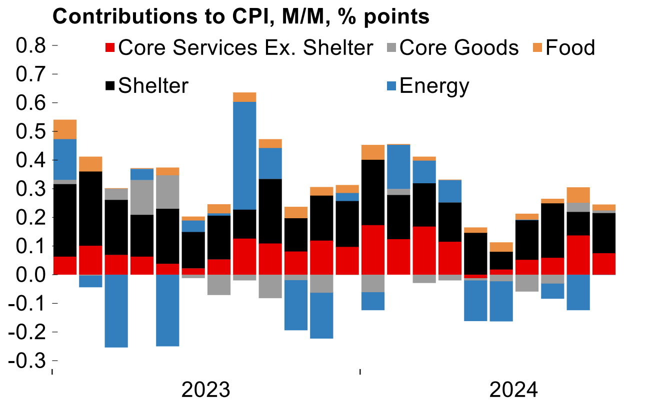
The core services component excluding shelter is often referred to as "super-core" inflation, with growth acting as a less volatile signal of the persistence of inflation. Focusing on this "sticky" component, we see that inflation has picked up from the lows of the early summer months, but growth has fallen relative to last month (Chart 2). Though it is far too soon to say conclusively, October's easing can offer some relief that the acceleration in September may not be a sign of broadening inflationary pressures.

Chart 1: Monthly CPI growth holds steady, with the largest contribution coming from core services



Source: BLS, MUFG Bank Economic Research Office

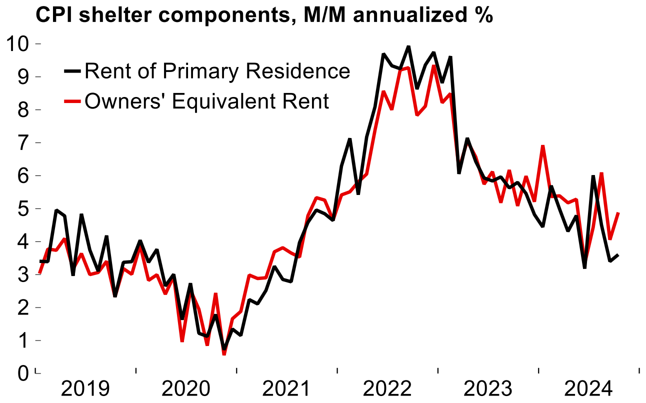
Chart 2: "Super-core" inflation eased in October, but growth remains higher than during the early summer months



Source: BLS, MUFG Bank Economic Research Office

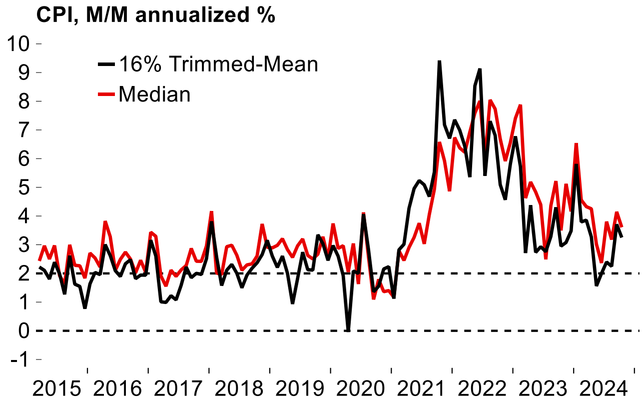
Shelter inflation continues to remain elevated, with growth in Owners' Equivalent Rent (OER) accelerating in October (Chart 3). Growth in both OER and rent of primary residence have been especially volatile in recent months, with smoothing revealing little to no easing of monthly shelter inflation since around May of this year. Structurally low housing availability in the US will ensure a very slow disinflation process in the shelter component, with rising treasury yields partially offsetting the relief that Fed rate cuts were expected to bring.

Chart 3: Volatility of Owners' Equivalent Rent continues to drive changes in CPI housing



Source: BLS, MUFG Bank Economic Research Office

Chart 4: When excluding outliers and stripping out the impact of large weighting differences, inflation remains above 2%



Source: Cleveland Fed, MUFG Bank Economic Research Office

Overall, inflation remains above the Fed's target of a long run average of 2%. Even when excluding outliers and stripping out the impact of large weighting differences, monthly growth in the CPI points to inflation above 2%. Shown in Chart 4, monthly annualized growth in the trimmed-mean CPI, which excludes outliers on both extremes of the distribution, remained above 3% in October following a strong acceleration in September. The median CPI, which only captures price growth in the middle of the distribution, paints a similar picture.

Despite this, the Fed will likely continue to cut rates at a moderate pace, with the next 25bps cut expected in December. There may continue to be residual effects of the rate hiking cycle that have yet to fully materialize and given the extended lag through which monetary policy works, the effect of rate cuts will likely not feed into the broader economy until 2025 at the earliest. In regard to the upcoming second Trump presidential term, the Fed will likely avoid pre-emptively altering the policy path ahead of any legislation being passed or executive orders being implemented.

Analyst Certification

The views expressed in this report solely reflect the personal views of Agron Nicaj, the primary analyst responsible for this report, about the subject securities or issuers referred to herein, and such views may not necessarily reflect the thoughts and opinions of MUFG Bank, Ltd. and its affiliates or management team. No part of such analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed herein.

About MUFG and MUFG Americas

Mitsubishi UFJ Financial Group, Inc. (MUFG) is one of the world's leading financial groups. Headquartered in Tokyo and with over 360 years of history, MUFG has a global network with approximately 2,000 locations in more than 40 countries. MUFG has nearly 120,000 employees and offers services including commercial banking, trust banking, securities, credit cards, consumer finance, asset management, and leasing. The Group aims to "be the world's most trusted financial group" through close collaboration among our operating companies and flexibly respond to all the financial needs of our customers, serving society, and fostering shared and sustainable growth for a better world. MUFG's shares trade on the Tokyo, Nagoya, and New York stock exchanges.

MUFG's Americas operations, including its offices in the U.S., Latin America, and Canada, are primarily organized under MUFG Bank, Ltd. and subsidiaries, and are focused on Global Corporate and Investment Banking, Japanese Corporate Banking, and Global Markets. MUFG is one of the largest foreign banking organizations in the Americas. For locations, banking capabilities and services, career opportunities, and more, visit www.mufgamericas.com.