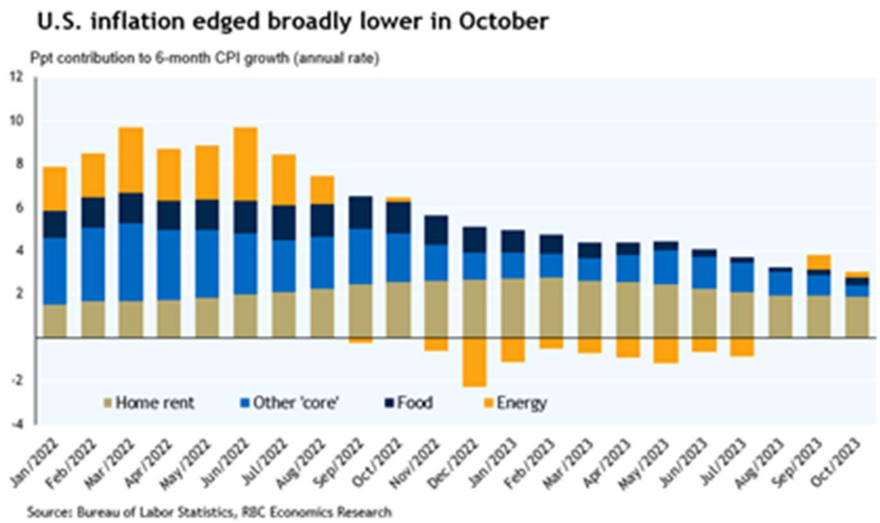
November 14, 2023

U.S. price growth eased again in October



- The slowing in CPI growth to 3.2% year-over-year in October from 3.7% in each of August and September was largely thanks to slower food and energy price growth, but alongside further signs that broader inflation pressures are easing.
- Gasoline prices fell 5.0% (seasonally adjusted) from September and overall energy prices were down 4.5% from a year ago versus -0.5% in September. Food price growth slowed to 3.3% year-over-year from 3.7% in August.
- Excluding food and energy products, core price growth edged down to 4.0% year-over-year from 4.1% year-over-year in September. That is still twice the Federal Reserve's inflation objective, but monthly growth rates have continued to slow, including a more 'normal' looking 0.2% month-over-month increase in October prices.
- Home rent prices continue to account for a disproportionate share of price growth, but will continue to slow as slower growth in current market rent measures feed through to leases with a lag. The large owner's equivalent rent component rose 0.4% month-over-month in October after jumping 0.6% in September.
- The Fed's preferred 'supercore' (core services ex-rent) measure is still up sharply over the last three months (4.9% at an annualized rate) but largely due to a big increase a month ago in September. The month-over-month increase in October was small at 0.2%.
- And by our count the share of the CPI basket excluding the shelter component seeing price growth above a 3% annualized rate over the last three months slipped to 40% from 50% in September. slow.

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- **Bottom line:** The October CPI data should calm concerns that inflation was reaccelerating after an upside surprise a month ago. Fed policymakers are wary of a reacceleration in price growth, but evidence is building that economic momentum is fading. GDP growth remained exceptionally resilient through Q3, but the unemployment rate has begun to edge higher - the 0.4 percentage point increase over the last three months is small but an increase of that size typically only happens at the start of a labour market slowdown and wage growth has slowed. Policymakers at the Federal Reserve are still willing to push interest rates higher if necessary, but that looks increasingly unlikely to be necessary. We continue to expect the Fed to leave the fed funds target range unchanged until pivoting to gradual cuts in the second quarter of 2024.

U.S. CPI Growth

	Jul-23	Aug-23	Sep-23	Oct-23
	month-over-month percent change			
Headline CPI	0.2	0.6	0.4	0.0
Food prices	0.2	0.2	0.2	0.3
Energy prices	0.1	5.6	1.5	-2.5
Core CPI	0.2	0.3	0.3	0.2
	year-over-year percent change			
Headline CPI	3.2	3.7	3.7	3.2
Food prices	4.9	4.3	3.7	3.3
Energy prices	-12.5	-3.6	-0.5	-4.5
Core CPI	4.7	4.3	4.1	4.0

Source: Bureau of Labor Statistics, RBC Economics Research