

Economics

US Inflation Slows More Than Forecast, Gives Fed Downshift Room

- CPI increased 7.7% in October from year ago, core up 6.3%
- Core prices eased as used cars, medical care and apparel fell



US Core Inflation Cools More Than Forecast

By Reade Pickert

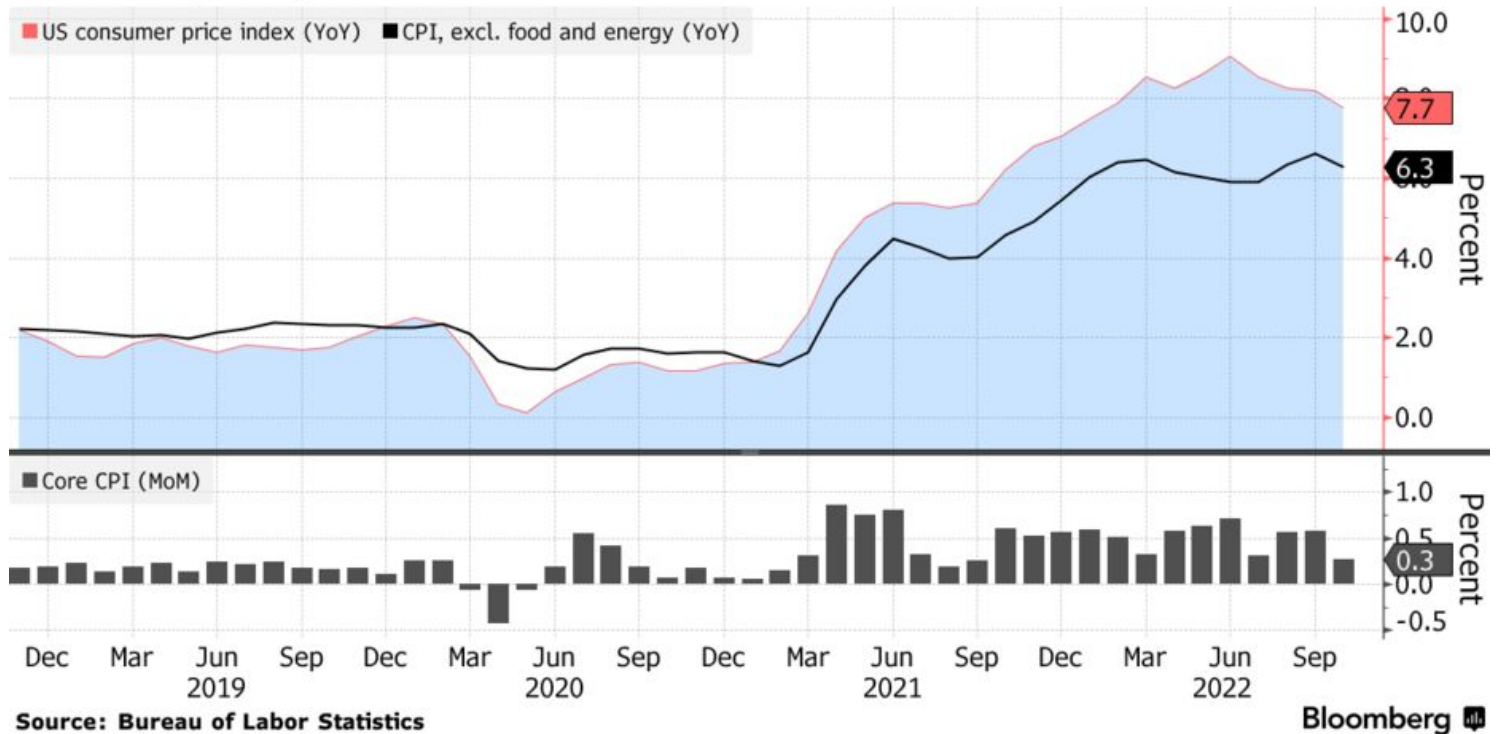
November 10, 2022 at 8:33 PM GMT+7 *Updated on November 10, 2022 at 10:08 PM GMT+7*

US inflation cooled in October by more than forecast, offering hope that the fastest price increases in decades are ebbing and giving Federal Reserve officials room to slow down their steep interest-rate hikes.

The consumer price index was up 7.7% from a year earlier, the smallest annual advance since the start of the year and down from 8.2% in September, according to a Labor Department report Thursday. Core prices, which exclude food and energy and are regarded as a better underlying indicator of inflation, advanced 6.3%, pulling back from a 40-year high.

US Inflation Decelerates

Consumer price growth slows in October in welcome news for Fed



The core consumer price index increased 0.3% from the prior month, while the overall CPI advanced 0.4%. Both increases as well as the monthly rises were below the median economist estimates.

“I think the underlying elements of this report are actually good, they’re supportive, there’s some evidence that we’re moving from peak inflation down lower,” Matthew Luzzetti, chief US economist at Deutsche Bank AG, said on Bloomberg Television. “Where do we end up I think is the big question.”

While the deceleration in core prices is welcome news, inflation remains much too high for comfort for the Fed. Chair Jerome Powell, who said this month that officials need to see a consistent pattern of weaker monthly inflation, also indicated rates will likely peak higher than policymakers previously envisioned.

Declines in the price gauges for medical care services and used vehicles restrained the core measure. Higher shelter costs contributed to more than half of the increase in overall CPI.

Treasury yields plunged while the S&P 500 soared at the open and the dollar index tumbled. Traders moved closer to pricing in a half-point Fed hike in December, rather than 75 basis points, and cut to below 5% where they see the peak rate coming next year.

Two Fed officials Thursday argued for moderating the pace of rate increases. Patrick Harker, who heads up the Philadelphia Fed, said that he expects the central bank to “slow the pace of our rate

hikes as we approach a sufficiently restrictive stance.” At a separate event, Dallas Fed President Lorie Logan said the CPI report was “a welcome relief, but there is still a long way to go.”

Read more: Fed Officials See Grounds for Soon Slowing Rate-Hike Pace

The median estimates in a Bloomberg survey of economists called for a 0.6% monthly gain in the CPI and a 0.5% advance in the core.

Fed officials will have both another CPI report and jobs report in hand before the end of their two-day policy meeting in mid-December.

What Bloomberg Economics Says...

“The soft October core CPI print offers Fed doves a powerful justification to slow the pace of rate hikes going forward. More widespread disinflation across goods sectors, and a measurement quirk in medical care services -- factors we expect to continue in the months ahead -- helped bring down inflation in October.”

-- Anna Wong, economist

For the full note, click [here](#).

Meantime, elevated inflation continues to weigh on American households and the broader economy. High prices have eaten away at wage gains and led many to either [tighten their belts](#) or rely on savings and credit cards to keep spending.

Inflation and the broader performance of the economy played a role in Tuesday’s midterm elections, though exit polls suggest social issues proved a [bigger factor](#) than pre-election polling had suggested. As of Thursday morning, the results were unclear, but it appeared that Republicans will gain a narrow majority in the House of Representatives.



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Barry Ritholtz, host of “Masters in Business,” and Bloomberg macro strategist Vince Cignarella discuss market reaction to CPI with Bloomberg’s Paul Sweeney.

Fed Campaign

While the Fed has embarked on the most aggressive tightening campaign since the 1980s, the labor market and consumer demand, while cooling some, have proved to be largely resilient. The housing market, however, has rapidly deteriorated amid soaring mortgage rates.

Consumer price growth is expected to further moderate over the coming year, though some economists expect the path back to the Fed's inflation goal to include both a recession and a rise in the unemployment rate.

Inflation is affecting economies globally, spurring the world's most aggressive and synchronized monetary policy tightening in 40 years and raising risks of a global downturn.

Read more: Economy of Extremes Looms Over US Voters on Midterm Election Eve

Shelter costs -- which are the biggest services' component and make up about a third of the overall CPI index -- increased 0.8% last month, the most since 1990. The acceleration was fueled by the biggest jump in costs of hotel stays in more than a year.

Though private-sector data points to a stabilization -- or even decline -- in rents in a range of cities across the country, there's a lag between real-time changes and when those are reflected in Labor Department data. Bloomberg Economics estimates the shelter-related components will crest in the next two to three months, then begin slowing.

Stripping out food, energy and shelter, the CPI dropped 0.1%, the weakest reading since May 2020.

Monthly Movers

Food rose 0.6%, smallest gain this year

Apparel fell 0.7%, biggest decline since April

Household furnishings fell 0.2%, most since January 2021

Health insurance decreased a record 4%

Overall medical care services fell 0.6%, most since 1971

Used cars decreased 2.4%, most since March

Airfares declined 1.1%

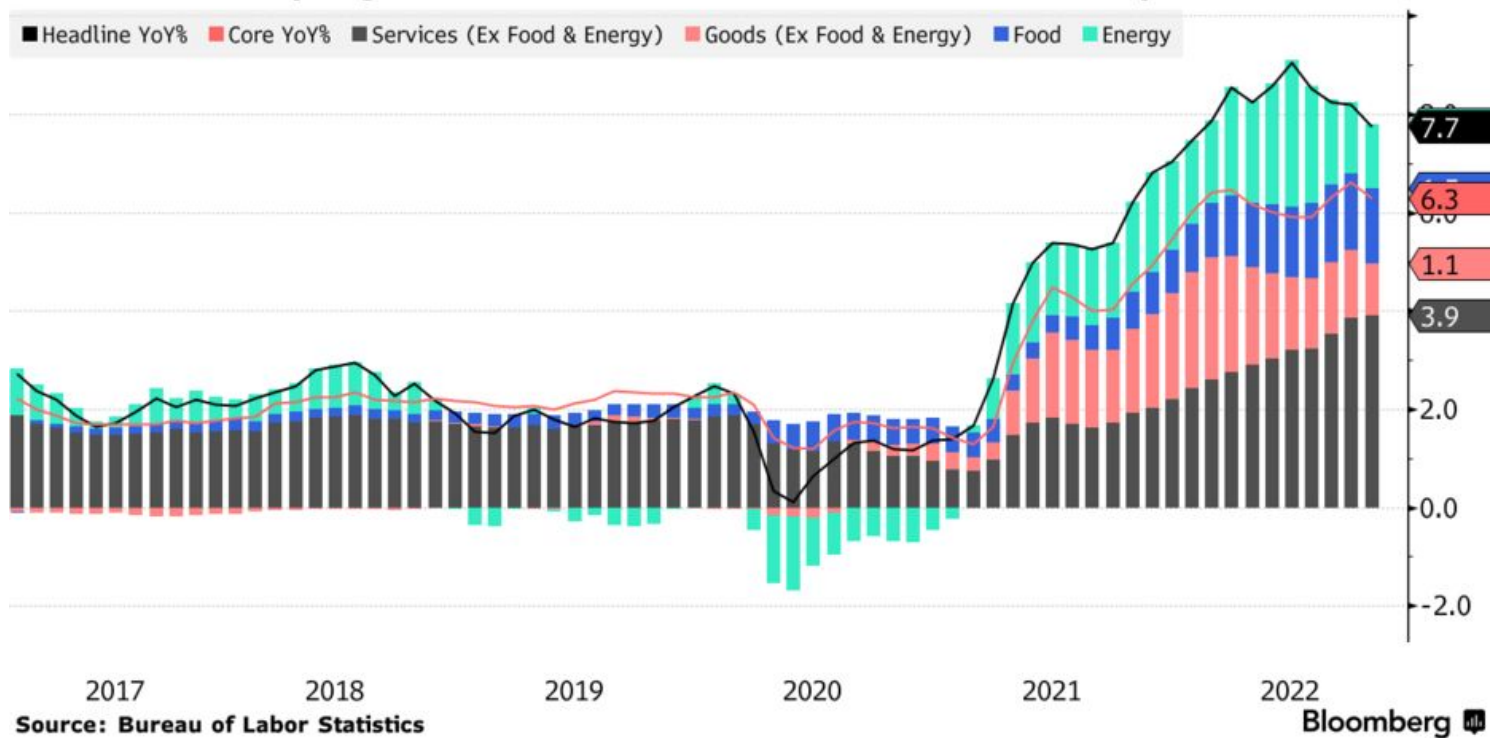
While the Fed bases its 2% target on a separate inflation measure from the Commerce Department -- the personal consumption expenditures price index -- the CPI is closely watched by policy makers, traders and the public. Given the volatility of food and energy prices, the core index is generally considered a more reliable barometer of underlying inflation.

Excluding food and energy, the cost of goods decreased 0.4%, the biggest decline since March. Services prices less energy increased 0.5%.

Economists generally expect goods prices to continue to soften as a result of shifting consumer preferences, improving supply chains and lower commodity prices. However, services may keep upward pressure on wages and inflation for the foreseeable future.

Breakdown of CPI

Services make up a greater share of CPI but overall measure steps down



A separate report Thursday highlighted how high inflation is depressing workers' purchasing power. Real average hourly earnings decreased in October and were down 2.8% from a year earlier. After adjusting for inflation, annual wages have fallen each month since April 2021.

– With assistance by Augusta Saraiva, Chris Middleton, Liz McCormick and Airielle Lowe

(Adds Logan and Harker comments)

