

Economic Indicator — November 13, 2024

October CPI: Sticky as Expected

Summary

The October CPI report held few surprises but highlighted that progress on inflation has started to stall. Consumer prices rose 0.2% last month, pushing the year-over-year change up to 2.6%. Excluding food and energy, inflation also has proved sticky in recent months. The core CPI rose 0.3% for a third straight month, with the three-month annualized rate of 3.6% running faster than the 12-month rate of 3.3%. Outside of autos, core goods prices fell, but the moderation in core services inflation remains painfully slow.

We believe the FOMC is still on track to reduce the federal funds rate by another 25 bps at its December 17-18 meeting. The cumulative progress on inflation, cooling of the labor market and still-tight monetary policy likely will push the FOMC to cut rates one more time before the end of the year. That said, the inflation data over the past few months have not shown much additional progress, and the election outcome has raised new questions about the path ahead for price growth. In addition, recession risks seem to have diminished somewhat relative to the summer months. As a result, we think the time is fast approaching when the FOMC will signal that the pace of rate cuts will slow further, perhaps to an every-other-meeting pace starting in 2025.

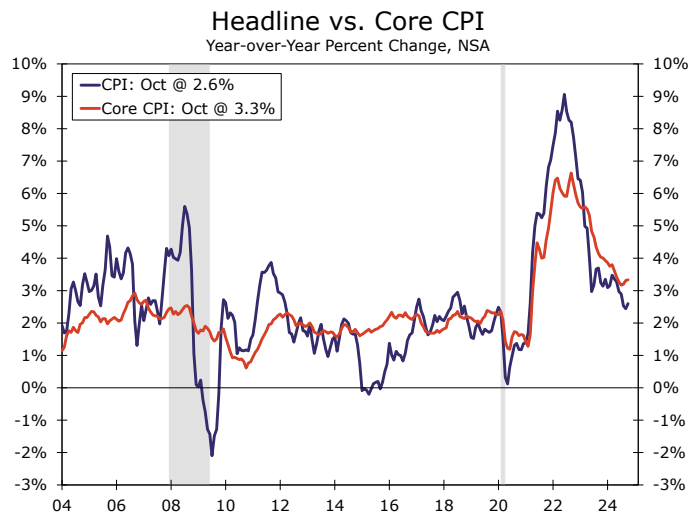
Economist(s)

Sarah House

Senior Economist | Wells Fargo Economics
 Sarah.House@wellsfargo.com | 704-410-3282

Michael Pugliese

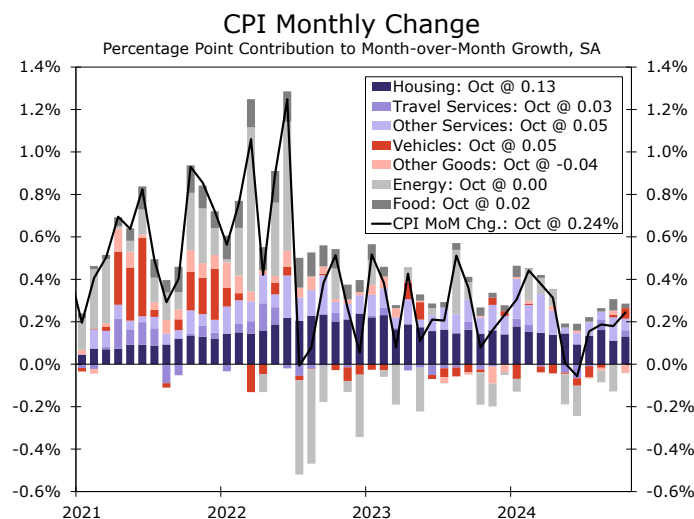
Senior Economist | Wells Fargo Economics
 Michael.D.Pugliese@wellsfargo.com | 212-214-5058



Source: U.S Department of Labor and Wells Fargo Economics

Slower-Going Progress Could Soon Frustrate the Fed's Easing Plans

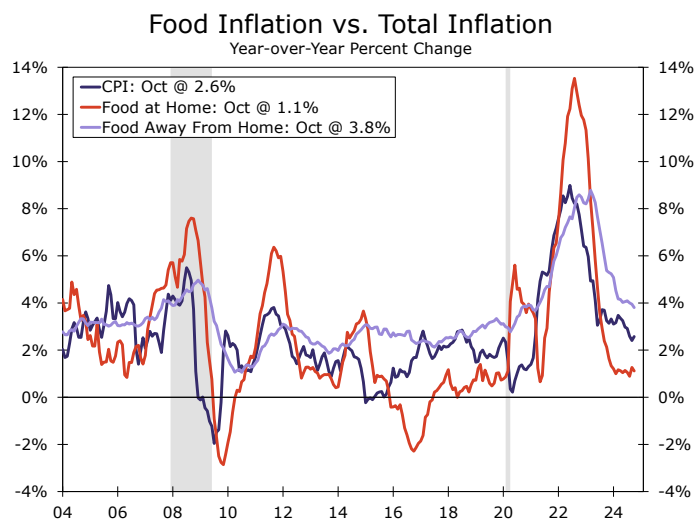
The difficulty in fully quelling inflation was on display in October. Consumer prices rose 0.2% for a fourth consecutive month, driving the year-over-year change back up to 2.6%. The firm headline reading came despite another drop in gasoline prices and a more benign increase in food prices last month. After jumping 0.4% in September, grocery prices advanced 0.1%, while food away from home prices rose 0.2%. Food away from home inflation remains elevated relative to its pre-pandemic pace, but has eased considerably over the past year, having advanced 3.8%—the smallest one year change since the spring of 2021 ([chart](#)).



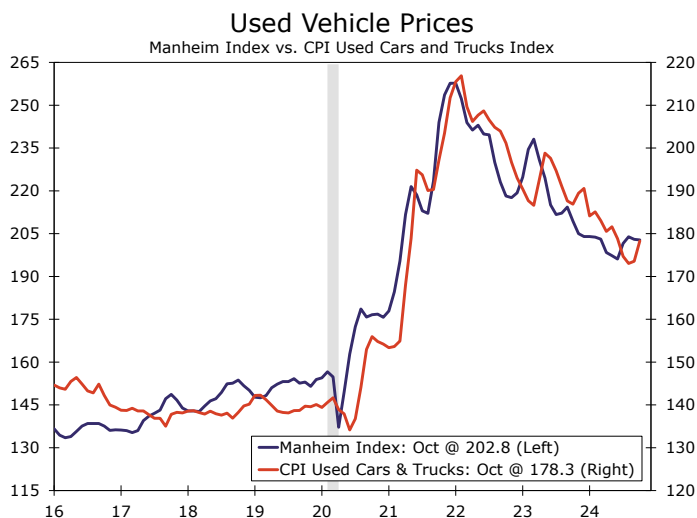
Source: U.S. Department of Labor and Wells Fargo Economics

Excluding food and energy, the core CPI rose 0.3% (0.28% unrounded) in October. This marked the third straight monthly reading of 0.3% and represents a pick-up relative to May–July when monthly core inflation registered 0.1%-0.2% per month. Core goods prices were flat in October, but this masks some significant movement in the sub-components. Used vehicle prices climbed 2.7%, the largest increase since May 2023 and in line with the leading signals sent by the privately-produced Manheim Index. Used vehicle prices are still down 3.4% year-over-year, but the sharp deflation seen in this sector over the past couple of years seems to be slowing down ([chart](#)). New vehicle prices were unchanged in the month, and a big drop in apparel prices (-1.5%) helped offset the jump in used vehicle prices.

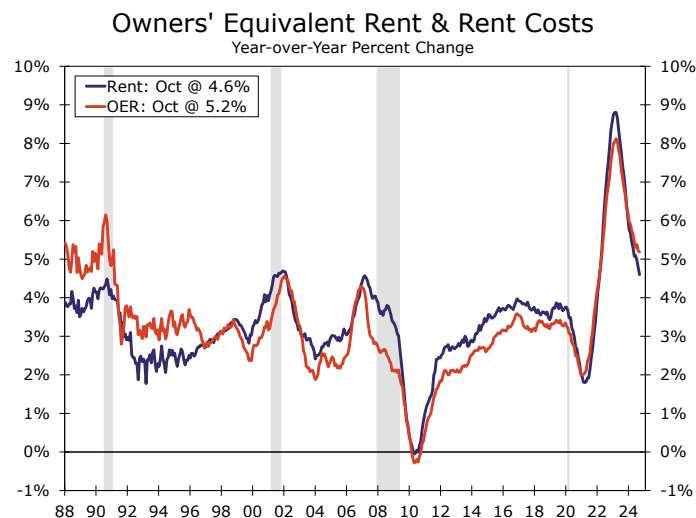
Core services prices increased 0.3% (0.35% unrounded), similar to the gains registered in September and August. Primary shelter inflation ticked up amid a 0.3% increase in rents and a 0.4% increase in owners' equivalent rents. Despite the monthly bump higher, the year-ago pace of primary shelter inflation continues to decline and is slowly approaching its pre-pandemic pace ([chart](#)). Airfares rose 3.2% in October and have increased at a nearly 50% annualized rate over the past three months. These sharp gains have come on the heels of some puzzlingly weak airfare readings earlier in the year and leave the year-ago change in airfares only up 4.1%. Elsewhere, a 0.1% decline in motor vehicle insurance prices helped keep services inflation in check, as did a relatively consensus-looking 0.4% increase in medical care services prices.



Source: U.S. Department of Labor and Wells Fargo Economics



Source: Bloomberg Finance L.P., U.S. Department of Labor and Wells Fargo Economics



Source: U.S. Department of Labor and Wells Fargo Economics

Looking through the monthly noise, inflation has gotten to a better place over the past year. The 2.6% year-over-year increase in consumer prices marks a step down from the 3.2% change this time last year and the 7.7% reading in October 2022. Core CPI also has trudged lower, moderating to a 12-month change of 3.3% compared to 4.0% last October. Slower growth in nominal wages, a pickup in productivity growth, stable commodity prices and more price-sensitive consumers continue to slowly reduce upward pressure on prices, even as [prospective fiscal/trade policy changes](#) have renewed concerns about the path ahead for inflation.

Yet the lack of additional progress in measured inflation over the past few months points to the Fed proceeding with monetary policy easing more slowly in the near term. We continue to expect the FOMC to cut the fed funds rate by another 25 bps in December given the cumulative progress on inflation and the significant cooling in the labor market over the past year. That said, we believe the time is soon approaching when the FOMC will slow the pace of easing further, perhaps moving to an every-other-meeting pace of rate cuts. The FOMC will receive another month's worth of inflation and labor market data ahead of its next meeting on December 18, which likely will sway that meeting's decision and the forward guidance for 2025.

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

Via The Bloomberg Professional Services at WFRE

Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Grein	Economist	704-410-0369	Shannon.Grein@wellsfargo.com
Nicole Cervi	Economist	704-410-3059	Nicole.Cervi@wellsfargo.com
Jeremiah Kohl	Economic Analyst	212-214-1164	Jeremiah.J.Kohl@wellsfargo.com
Aubrey Woessner	Economic Analyst	704-410-2911	Aubrey.B.Woessner@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Anna Stein	Economic Analyst	212-214-1063	Anna.H.Stein@wellsfargo.com
Ali Hajibeigi	Economic Analyst	212-214-8253	Ali.Hajibeigi@wellsfargo.com
Coren Miller	Administrative Assistant	704-410-6010	Coren.Miller@wellsfargo.com

Required Disclosures

This report is produced by the Economics Group of Wells Fargo Bank, N.A. ("WFBNA"). This report is not a product of Wells Fargo Global Research and the information contained in this report is not financial research. This report should not be copied, distributed, published or reproduced, in whole or in part. WFBNA distributes this report directly and through affiliates including, but not limited to, Wells Fargo Securities, LLC, Wells Fargo & Company, Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., and Wells Fargo Securities Canada, Ltd. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. WFBNA is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

This publication has been prepared for informational purposes only and is not intended as a recommendation, offer or solicitation with respect to the purchase or sale of any security or other financial product, nor does it constitute professional advice. The information in this report has been obtained or derived from sources believed by WFBNA to be reliable, but has not been independently verified by WFBNA, may not be current, and WFBNA has no obligation to provide any updates or changes. All price references and market forecasts are as of the date of the report or such earlier date as may be indicated for a particular price or forecast. The views and opinions expressed in this report are those of its named author(s) or, where no author is indicated, the Economics Group; such views and opinions are not necessarily those of WFBNA and may differ from the views and opinions of other departments or divisions of WFBNA and its affiliates. WFBNA is not providing any financial, economic, legal, accounting, or tax advice or recommendations in this report, neither WFBNA nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this report, and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. WFBNA is a separate legal entity and distinct from affiliated banks, and is a wholly-owned subsidiary of Wells Fargo & Company. © 2024 Wells Fargo Bank, N.A.

Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority ("FCA"). For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 (the "Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Act for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EFTA, this report is distributed by WFSIL. For recipients in the EU, it is distributed by Wells Fargo Securities Europe S.A. ("WFSE"). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in MiFID2. This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE