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## November Consumer Price Index: Inflation Tops 2.0 Percent. Just Not THAT 2.0 Percent . . .

- > The total CPI **rose** by 0.3 percent (0.258 percent unrounded) in November; the core CPI **rose** by 0.2 percent (0.230 percent unrounded)
- > On a year-over-year basis, the total CPI is **up** 2.1 percent and the core CPI is **up** 2.3 percent as of November

The total CPI rose by 0.3 percent in November, ahead of the 0.2 percent increase we and the consensus expected (well, kind of, the unrounded 0.258 percent increase compares to our unrounded forecast of a 0.242 percent increase), while the core CPI was up 0.2 percent, as we and the consensus expected. On an over-the-year basis, the total CPI is up 2.1 percent while the core CPI is up 2.3 percent. Keep in mind, however, that the total CPI declined slightly last November, setting up an easy over-the-year comparison for this November, and these same base effects will be in play in the December data. And, even if we were to take the 2.1 percent print on headline inflation at face value, also keep in mind that the FOMC's preferred gauge of inflation is the PCE Deflator, which was bumping along at a 1.3 percent pace in both September and October, so by that measure inflation remains far from the FOMC's 2.0 percent target rate. To be sure, the November and December reads on PCE inflation will be boosted by the same base effects seen in the CPI data, but that will still leave inflation short of the FOMC's target. Furthermore, the FOMC has implied they will be comfortable letting inflation run ahead of their target, which means it will be even longer before inflation again becomes a material concern for the FOMC, with their focus remaining squarely mitigating the downside risks to growth.

The overall energy index rose by 0.8 percent in November, with retail gasoline prices up by 1.1 percent, though this still leaves pump prices down 1.3 percent year-on-year. Prices for home heating oils and electricity also rose in November. Food prices were up by just 0.1 percent, with prices for food consumed at home up 0.1 percent and prices for food consumed away from home up 0.2 percent. On an over-the-year basis, the overall food index is up 2.0 percent. Core goods prices were basically flat in November (up 0.036 percent), leaving them up just 0.1 percent year-on-year. Thus far, consumer goods prices have been well insulated from the effects of tariffs, though we'll soon have a better idea as to whether that will remain the case. Having bought the head fake put on by firm increases over the summer months, we had expected core goods prices to have more traction during the holiday shopping season, and had incorporated some price effects into our holiday sales forecast, but, at least on the data through November, that does not appear to be the case.

Shelter costs were up by 0.3 percent in November after having risen by just 0.1 percent in October. Primary rents were up by 0.3 percent following the 0.1 percent increase in October which was the smallest monthly increase since April 2011. Owners' equivalent rents were up by 0.2 percent. After having been a considerable drag on shelter costs in October, costs for lodging away from home reversed course and were up by 1.1 percent in November. On an over-the-year basis, primary rents were up 3.7 percent as of November but, as our middle chart shows, growth in primary rents seems to be waning. It will be interesting to watch this category over coming months, as the considerable backlog of multi-family units under construction begins to clear. Thus far, however, rents on single family homes, continue to rise a robust pace, thus supporting the broader primary rents category. One reason rent growth is worth watching, at least in the context of the CPI data, is that rents account for over 40 percent of the core CPI. As we've noted over the past few months, however, as rent growth has begun to ease, services prices have begun to rise at a faster pace, thus supporting core inflation.

Apparel prices and used motor vehicle prices, which have been sources of considerable noise in the CPI data over recent months, were fairly quiet in November, up by 0.1 percent and 0.6 percent, respectively. After having risen by 1.0 percent in October, medical care costs were up by 0.3 percent in November. So, while the "usual suspects" were somewhat quiet in November, categories such as recreation (up 0.4 percent) and education/communication services (up 0.3 percent) tipped the balance on the change in the total CPI to arrive at the (just barely) 0.3 percent increase. Either way, however, the bottom line is that inflation is not at present a major concern for the FOMC.

