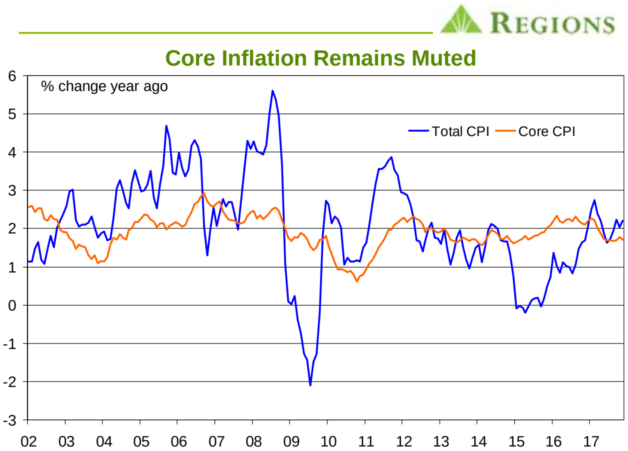
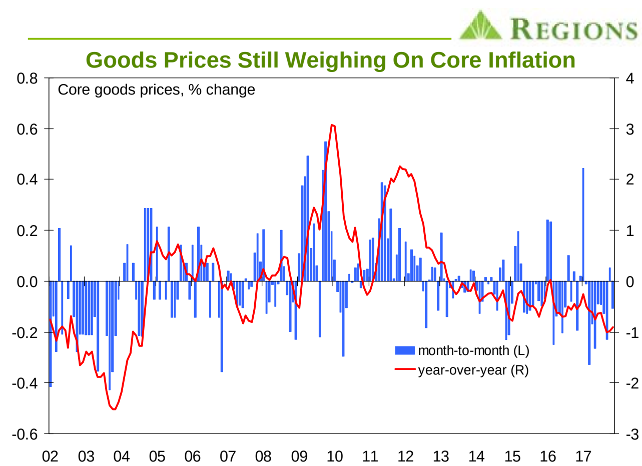
November Consumer Price Index: Gasoline Fuels Headline CPI; Core Inflation Muted

- The total CPI rose 0.4 percent (0.386 percent unrounded) in November; the core CPI was up 0.1 percent (0.117 percent unrounded)
- On a year-over-year basis, the total CPI was up 2.2 percent and the core CPI was up 1.7 percent in November

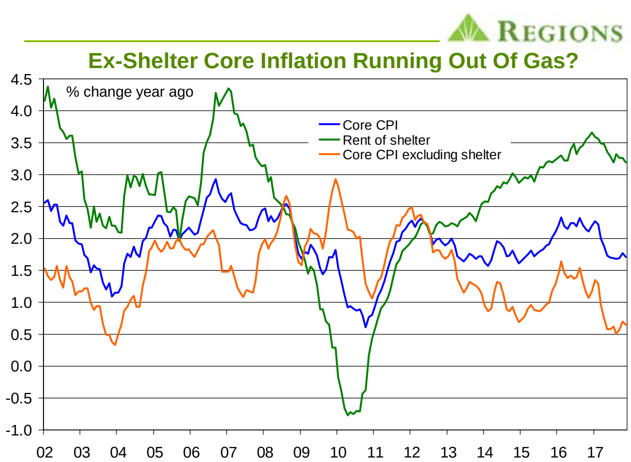
As anticipated, the total CPI rose by 0.4 percent in November, but with an increase of just 0.1 percent, the core CPI fell short of the 0.2 percent increase we and the consensus expected. For what it's worth, and in these days of low inflation that's not a lot, the change in the core CPI came down to rounding – our unrounded forecast anticipated a 0.174 percent increase while the actual increase was 0.117 percent. As in football, economic forecasting is a game of inches. In any event, the increase in the total CPI was largely fueled by gasoline prices (yes, we said it) that defied typical seasonal patterns. As of November, the total CPI is up 2.2 percent year-on-year, with the core CPI up 1.7 percent. As for what today's report implies for the FOMC as they conclude their two-day meeting later today, the answer is nothing at all. We have all along expected a rate hike at the December FOMC meeting regardless of what today's CPI report said. What will get the Committee's attention, however, is the modest softening in core inflation; for some FOMC members this will reinforce doubts as to whether the recent run of soft (core) inflation reflects structural or transitory forces. While that won't stop the Committee from raising the funds rate today, it will likely add to the debate over the appropriate pace of rate hikes going forward.



Retail gasoline prices were up by 2.6 percent in November on a not seasonally adjusted basis. As noted above, this runs counter to typical seasonal patterns, and since the seasonal adjustment factors are geared for lower prices in the month of November, the increase in unadjusted prices is greatly magnified in the seasonally adjusted data, which show gasoline prices up 7.3 percent in November. September saw retail gasoline prices spike by better than 10 percent (not seasonally adjusted) in the wake of Hurricane Harvey taking out over 20 percent of the nation's refining capacity, and what was only a partial giveback in October was followed by November's increase. What we are seeing in the CPI data is the effect of much firmer crude oil prices over the past several weeks. As such, gasoline could be a persistent support for headline inflation over coming months.



Food prices were flat in November, with prices for food consumed at home down by 0.1 percent and prices for food consumed away from home up 0.2 percent. Lodging prices fell by 1.3 percent in November, reflecting some seasonal weakness but also reflecting a reversal of post-hurricane spikes in September and October. Apparel prices fell sharply in November, with the 1.3 percent decline in the broad apparel index the product of declines in almost all of the sub-components. One surprise in the November data is the firmness of motor vehicle prices; prices of new vehicles were up by 0.3 percent while prices for used vehicles jumped by 1.0 percent on the heels of a 0.7 percent increase in October. Our forecast anticipated smaller increases in market rents in November than those seen in October; primary rents posted another 0.3 percent increase but the 0.2 percent increase in owners' equivalent rents was smaller than October's 0.3 percent increase. Recent months have seen apartment rents soften (which will remain the case for some time to come), but rents on single family homes continue to rise at a healthy clip, thus supporting the primary rents category in the CPI data.



But, take away rents, which account for over 40 percent of the core CPI, and there is little support for core inflation, as seen in our bottom chart. As our forecast anticipated, core goods prices were down 0.1 percent in November, leaving them down year-on-year for the 55th time in the past 56 months. If there is going to be a meaningful turn in the inflation data, non-shelter core inflation is where we'll see it first, but thus far the data suggest any such turn hasn't shown up on the GPS system quite yet.

Keep in mind that as measured by the PCE deflator, the FOMC's preferred gauge of inflation, core inflation is even softer than reported in the CPI data. Whether, and to what extent, core inflation firms up will be the main story line to follow in terms of how monetary policy evolves over the course of 2018.

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