

US Watch

November CPI Inflation: goods on sale, sticky services

Inflation remains firm, as expected

The November Consumer Price Index (CPI) report was roughly in line with our and consensus expectations. Headline CPI was up 0.1% on the month (+0.10% unrounded). As a result, the y/y rate fell a tenth to 3.1%, its lowest reading since June 2023. Meanwhile, core inflation rose by 0.3% m/m (0.28% unrounded). As a result, the y/y rate stayed flat at 4.0%. The three-month annualized rate was also unchanged at 3.4%.

Noncore: slightly softer decline in energy

The slightly stronger than expected headline growth in inflation largely reflected a softer-than-expected decline in energy prices. We had expected energy to fall by 3.5% m/m but instead it fell by 2.3% m/m. Food prices meanwhile rose by 0.2% m/m, in line with our expectations.

Core goods deflation broadens

Core goods prices fell by 0.3% m/m, its sixth consecutive monthly decline. As a result, core goods are down 2.5% m/m on a six-month annualized basis. The decline in core goods prices came despite a 1.6% m/m increase in used car prices, which should reverse in coming months given large declines in wholesale prices in October and November. Excluding used cars, core goods fell by 0.6% m/m its largest decline since April 2020. The decline could reflect steeper than typical holiday discounting, that we would not expect to continue in coming months. Indeed, apparel fell by 1.3% m/m, IT commodities dropped by 2.7% m/m and household furnishings and appliances declined by 0.7% m/m.

Rents remain sticky

Meanwhile, core services were stickier than we expected, increasing by 0.5% m/m. Shelter rose by 0.4% m/m, in line with our expectations. Lodging away from home fell for a second consecutive month. However, rent and owners' equivalent rent (OER) remained firm at 0.5% m/m. We continue to see signs that the lag between asking rents and CPI rent may be longer on the way down than the way up. Rents should eventually moderate towards pre-pandemic levels (~0.3% m/m). However, it remains a slow-moving process. This is one reason why we expect disinflation to slow next year.

Core services ex rent and OER picks up

Core services excluding rent and OER also exhibited stickiness as it accelerated to 0.4% m/m from 0.2% m/m. This was despite the decline in lodging away from home and airfares. On a six-month annualized basis, this aggregate has shown some progress in terms of disinflation declining from 4.1% in May to 3.7% in November. But like overall core services and shelter, the progress has been gradual. *(Continued on next page)*

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Glossary

CPI = Consumer Price Index
NSA = Not Seasonally Adjusted
OER = Owners' Equivalent Rent
OIS = Overnight Indexed Swap
PCE = Personal Consumption Expenditures (Price Index)
PPI = Producer Price Index

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Overall disinflation is intact

On net, we think the report continues to signal that the path to 2% inflation remains intact. Goods prices are retracing the supply-driven surge during the pandemic. However, services prices remain stickier given still high wage inflation and a slightly hot labor market. We expect this to slow the rate of disinflation over the coming year. Indeed, we look for with core CPI to end 2024 at 3.0% y/y before falling to 2.5% by yearend 2025.

The Fed is in “wait and see” mode

In terms of the Fed, we see the November CPI report as in line with other data received since the November FOMC meeting that suggest the economy and inflation are cooling. That said, there is enough firmness in services inflation – 0.5% m/m for both OERE and rent and 0.4% m/m for core services ex-OER and rent – to keep the Fed in a “wait and see” mode as it gathers confidence about whether inflation is indeed returning to 2.0%. Our CPI inflation forecast remains above the market-implied path on account of a slower diminution of shelter and services inflation, and we view today’s data as broadly in line with our thesis that inflation is moving in the right direction, but gathering confidence about trends in services inflation is likely to take some time. In other words, we see the underlying details of the report as more consistent with a cutting cycle that begins in June as opposed to one that begins in March.

Rates and FX: Financial market reaction

On net, the sticky services inflation reading supported a modest bear flattening of the nominal curve and reduced cuts priced in ’24 by 6bps. While front-end inflation breakevens were bid following the print, the move later retraced alongside the continued drop in oil prices. Since the payrolls report last Friday, the market has removed about 15bps of cuts from 2024. Cuts still stand beyond what we expect the dots to endorse tomorrow, at 109bps vs dots at 75bps. Should Powell focus more on the continued strength in services inflation the market may continue to be challenged on extent of cuts in ’24.

Following the report, the USD appreciated 0.25-0.75% vs G10 currencies, on net, after some initial intra-day volatility. The USD move was consistent with the slight rise in US yields, as markets continue to digest the report in the context of the upcoming Fed meeting and forward-looking policy outlook. We have argued that this pricing appears excessive and could be a source of more near-term USD appreciation, should the data suggest a longer pause, as today’s CPI and Friday’s employment report has done on the margin.

Exhibit 2: CPI Forecast vs. Actual (SA % m/m unless specified otherwise)

Below is a table that compares our bottoms-up CPI forecasts to actuals

	November Forecast		
	Actual	Forecast	Error
NSA Index (level)	307.051	306.917	0.134
Headline CPI (All Items)	0.10%	0.05%	0.05%
Food	0.2%	0.2%	0.0%
Energy	-2.3%	-3.5%	1.2%
Core CPI	0.28%	0.32%	-0.04%
Core goods	-0.30%	0.04%	-0.34%
Household furnishings and supplies	-0.7%	-0.2%	-0.5%
Apparel	-1.3%	-0.1%	-1.2%
Transportation commodities less motor fuel	0.5%	0.2%	0.3%
<i>Of which:</i>			
New vehicles	-0.1%	-0.1%	0.0%
Used cars and trucks	1.6%	0.8%	0.8%
Medical care commodities	0.5%	0.2%	0.2%
Recreation commodities	-0.6%	0.0%	-0.6%
Other recreational goods	-0.5%	-0.2%	-0.3%
Education and communication commodities	-2.6%	-0.7%	-1.8%
Alcoholic beverages	-0.1%	0.1%	-0.2%
Other goods	0.1%	0.6%	-0.5%
Core Services	0.47%	0.43%	0.04%
Shelter	0.4%	0.4%	0.0%
<i>Of which:</i>			
Rent	0.5%	0.4%	0.0%
Lodging away from home	-0.9%	0.8%	-1.7%
OER	0.5%	0.4%	0.1%
Water and sewer	0.3%	0.3%	0.0%
Medical care services	0.6%	0.3%	0.3%
<i>Of which:</i>			
Health insurance	1.1%	1.1%	0.0%
Transportation services	1.1%	0.9%	0.2%
<i>Of which:</i>			
Airfares	-0.4%	-0.9%	0.5%
Recreation services	0.1%	0.2%	-0.1%
Education and communication	0.1%	0.1%	0.0%
Other personal services	0.3%	0.4%	-0.1%

Source: BofA Global Research, Bureau of Labor Statistics, Bloomberg

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Exhibit 3: CPI heatmap (%m/m)

Headline CPI rose by 0.1% m/m in November. Core rose by 0.3% m/m

Oct-23 weight	Component	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23	Jan-23	Dec-22
100.0	Headline CPI	0.097%	0.04%	0.40%	0.63%	0.17%	0.18%	0.12%	0.37%	0.05%	0.37%	0.52%	0.13%
13.4	Food	0.22%	0.30%	0.23%	0.24%	0.24%	0.11%	0.20%	0.02%	0.01%	0.39%	0.51%	0.45%
7.0	Energy	-2.3%	-2.45%	1.52%	5.58%	0.11%	0.60%	-3.59%	0.56%	-3.52%	-0.56%	1.97%	-3.06%
79.6	Core CPI	0.285%	0.23%	0.32%	0.28%	0.16%	0.16%	0.44%	0.41%	0.38%	0.45%	0.41%	0.40%
20.9	Core Goods	-0.30%	-0.09%	-0.39%	-0.10%	-0.33%	-0.05%	0.55%	0.57%	0.18%	-0.01%	0.07%	-0.13%
18.4	Core Goods ex Used Cars	-0.56%	0.01%	-0.08%	0.07%	-0.18%	0.00%	0.00%	0.04%	0.33%	0.38%	0.46%	0.27%
4.3	Household Furnishings and Supplies	-0.66%	-0.18%	-0.28%	0.32%	-0.35%	-0.27%	-0.41%	-0.40%	0.37%	0.76%	0.51%	0.25%
2.5	Apparel	-1.29%	0.10%	-0.76%	0.20%	-0.03%	0.31%	0.29%	0.27%	0.26%	0.81%	0.83%	0.21%
7.5	Motor Vehicles & parts	0.51%	-0.37%	-0.88%	-0.29%	-0.54%	-0.17%	1.49%	1.45%	-0.04%	-0.90%	-0.71%	-0.62%
4.2	New Vehicles	-0.06%	-0.09%	0.30%	0.27%	-0.08%	-0.03%	-0.12%	-0.22%	0.38%	0.18%	0.23%	0.58%
2.5	Used Cars and Trucks	1.58%	-0.80%	-2.53%	-1.23%	-1.34%	-0.45%	4.42%	4.45%	-0.88%	-2.77%	-1.94%	-1.99%
1.5	Medical Care Commodities	0.46%	0.42%	-0.29%	0.56%	0.51%	0.19%	0.65%	0.46%	0.59%	0.15%	1.06%	0.11%
2.2	Recreation Commodities	-0.61%	0.15%	0.29%	-0.44%	-0.78%	-0.36%	-0.05%	0.29%	0.24%	0.44%	0.12%	0.09%
0.9	Education and Communication Commodities	-2.55%	-1.27%	0.33%	-0.70%	-1.25%	-0.07%	-0.20%	-0.18%	-0.50%	-0.77%	-0.09%	-0.92%
0.8	Alcoholic Beverages	-0.14%	0.17%	0.81%	-0.01%	0.12%	0.01%	0.51%	0.47%	0.14%	-0.28%	0.41%	0.65%
1.3	Other Goods	0.11%	1.09%	0.48%	0.12%	0.30%	0.08%	0.59%	0.24%	0.53%	0.74%	0.77%	-0.07%
58.7	Core Services	0.47%	0.34%	0.57%	0.39%	0.35%	0.25%	0.40%	0.36%	0.45%	0.62%	0.55%	0.61%
25.2	Core Services ex Rent and OER	0.44%	0.22%	0.61%	0.37%	0.19%	-0.01%	0.24%	0.11%	0.40%	0.50%	0.36%	0.38%
35.0	Shelter	0.45%	0.33%	0.65%	0.29%	0.44%	0.37%	0.56%	0.42%	0.56%	0.76%	0.74%	0.79%
25.8	Owners' Equivalent Rent of Residences	0.50%	0.41%	0.56%	0.38%	0.49%	0.45%	0.52%	0.54%	0.48%	0.70%	0.67%	0.79%
7.7	Rent of Primary Residence	0.48%	0.50%	0.49%	0.48%	0.42%	0.46%	0.49%	0.56%	0.49%	0.76%	0.74%	0.79%
1.1	Lodging Away From Home	-0.93%	-2.45%	3.65%	-2.97%	-0.34%	-2.01%	1.80%	-2.96%	2.70%	2.26%	1.20%	1.10%
1.1	Water & Sewer & Trash Collection Services	0.32%	0.26%	0.24%	0.48%	0.46%	0.40%	0.58%	0.33%	0.27%	0.79%	0.85%	0.25%
0.9	Household Operations	0.00%	#N/A	#N/A	-1.14%	1.79%	0.78%	-1.19%	#N/A	#N/A	#N/A	#N/A	#N/A
6.3	Medical Care Services	0.60%	0.32%	0.32%	0.06%	-0.40%	-0.02%	-0.05%	-0.14%	-0.50%	-0.70%	-0.68%	0.30%
6.1	Transportation Services	1.06%	0.83%	0.69%	1.96%	0.34%	0.13%	0.84%	-0.18%	1.38%	1.14%	0.85%	0.63%
0.5	Airline Fares	-0.39%	-0.91%	0.28%	4.89%	-8.09%	-8.11%	-2.95%	-2.55%	3.96%	6.38%	-2.15%	-2.05%
3.1	Recreation Services	0.06%	0.08%	0.50%	-0.07%	0.77%	0.46%	-0.09%	0.74%	0.01%	1.19%	0.73%	0.29%
4.8	Education and Communication Services	0.07%	0.02%	0.07%	0.08%	0.29%	-0.27%	-0.15%	0.07%	0.29%	0.21%	0.45%	0.26%
1.5	Other Personal Services	0.29%	0.26%	0.64%	0.70%	-0.07%	0.23%	0.47%	1.52%	0.47%	1.06%	0.54%	-0.15%

Source: BofA Global Research, Bureau of Labor Statistics

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Exhibit 4: CPI heatmap (%y/y)

Headline CPI rose by 3.1% y/y in November and core rose by 4.0% y/y

Oct-23 weight	Component	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23	Jan-23	Dec-22
100.0	Headline CPI	3.14%	3.24%	3.70%	3.67%	3.18%	2.97%	4.05%	4.93%	4.98%	6.04%	6.41%	6.45%
13.4	Food	2.95%	3.30%	3.69%	4.25%	4.86%	5.74%	6.69%	7.65%	8.50%	9.49%	10.13%	10.41%
7.0	Energy	-5.44%	-4.53%	-0.45%	-3.62%	-12.47%	-16.74%	-11.66%	-5.06%	-6.42%	5.19%	8.70%	7.31%
79.6	Core CPI	4.01%	4.03%	4.15%	4.35%	4.65%	4.83%	5.33%	5.52%	5.59%	5.54%	5.58%	5.71%
20.9	Core Goods	-0.04%	0.02%	-0.03%	0.39%	0.93%	1.41%	2.02%	2.08%	1.59%	0.96%	1.29%	2.18%
18.4	Core Goods ex used cars	0.73%	1.44%	1.64%	2.02%	2.54%	3.10%	3.67%	4.00%	4.23%	4.22%	4.37%	4.71%
4.3	Household Furnishings and Supplies	-0.34%	0.69%	0.91%	1.68%	2.24%	3.24%	4.08%	4.77%	5.79%	6.33%	6.37%	7.28%
2.5	Apparel	1.08%	2.61%	2.32%	3.09%	3.18%	3.07%	3.47%	3.65%	3.25%	3.26%	3.06%	2.91%
7.5	Motor Vehicles & Parts	-0.90%	-2.10%	-2.29%	-1.92%	-1.27%	-0.75%	0.12%	-0.30%	-1.82%	-3.18%	-2.26%	-0.95%
4.2	New Vehicles	1.33%	1.87%	2.53%	2.92%	3.50%	4.07%	4.66%	5.42%	6.12%	5.83%	5.78%	5.89%
2.5	Used Cars and Trucks	-3.75%	-7.14%	-7.99%	-6.64%	-5.64%	-5.15%	-4.22%	-6.56%	-11.15%	-13.58%	-11.62%	-8.83%
1.5	Medical Care Commodities	4.98%	4.70%	4.24%	4.45%	4.13%	4.21%	4.42%	4.01%	3.59%	3.19%	3.39%	3.21%
2.2	Recreation Commodities	-0.62%	-0.37%	0.25%	-0.08%	1.02%	1.96%	2.73%	2.90%	3.16%	2.85%	3.27%	4.11%
	Education and Communication												
0.9	Commodities	-7.89%	-7.07%	-7.32%	-8.12%	-7.84%	-7.10%	-6.88%	-8.29%	-10.17%	-10.47%	-10.26%	-10.08%
0.8	Alcoholic Beverages	2.90%	3.70%	4.24%	3.71%	4.10%	4.42%	4.77%	4.64%	4.53%	4.92%	5.82%	5.78%
1.3	Other Goods	5.10%	5.64%	5.11%	5.01%	6.09%	6.13%	6.58%	6.80%	6.91%	6.96%	7.15%	7.17%
58.7	Core Services	5.49%	5.51%	5.69%	5.89%	6.12%	6.16%	6.57%	6.84%	7.12%	7.27%	7.17%	7.03%
25.2	Core Services ex Rent and OER	3.88%	3.70%	3.82%	3.95%	4.08%	3.94%	4.56%	5.05%	5.75%	6.11%	6.19%	6.18%
35.0	Shelter	6.51%	6.72%	7.15%	7.27%	7.69%	7.83%	8.04%	8.11%	8.18%	8.10%	7.88%	7.51%
25.8	Owners' Equivalent Rent of Residences	6.68%	6.85%	7.08%	7.32%	7.66%	7.81%	8.05%	8.12%	8.04%	8.01%	7.76%	7.53%
7.7	Rent of Primary Residence	6.87%	7.18%	7.41%	7.76%	8.03%	8.33%	8.66%	8.80%	8.81%	8.76%	8.56%	8.35%
1.1	Lodging Away From Home	0.85%	1.22%	7.33%	2.98%	6.04%	4.54%	3.41%	3.31%	7.26%	6.73%	7.69%	3.18%
1.1	Water & Sewer & Trash Collection Services	5.35%	5.34%	5.25%	5.82%	5.83%	5.71%	5.71%	5.41%	5.39%	5.25%	4.97%	4.94%
0.9	Household Operations	0.00%	6.70%	#N/A	4.79%	#N/A	5.21%	4.55%	8.01%	#N/A	#N/A	#N/A	#N/A
6.3	Medical Care Services	-0.88%	-1.96%	-2.64%	-2.14%	-1.53%	-0.76%	-0.08%	0.41%	1.03%	2.15%	2.99%	4.12%
6.1	Transportation Services	10.06%	9.23%	9.05%	10.35%	9.03%	8.23%	10.18%	11.03%	13.88%	14.64%	14.63%	14.58%
0.5	Airline Fares	-12.11%	-13.20%	-13.42%	-13.29%	-18.59%	-18.85%	-13.44%	-0.87%	17.70%	26.54%	25.56%	29.14%
3.1	Recreation Services	4.79%	5.71%	6.44%	6.10%	6.21%	5.92%	5.76%	6.39%	5.94%	6.34%	5.75%	5.71%
4.8	Education and Communication Services	1.37%	2.29%	2.45%	2.57%	2.72%	2.38%	2.79%	3.13%	3.25%	2.86%	2.77%	2.41%
1.5	Other Personal Services	6.12%	6.67%	6.78%	6.38%	5.95%	6.46%	6.67%	6.30%	5.25%	5.21%	5.34%	5.55%

Source: BofA Global Research, Bureau of Labor Statistics

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