October CPI: Inflation moderates, rising at annual 7.7% over last year

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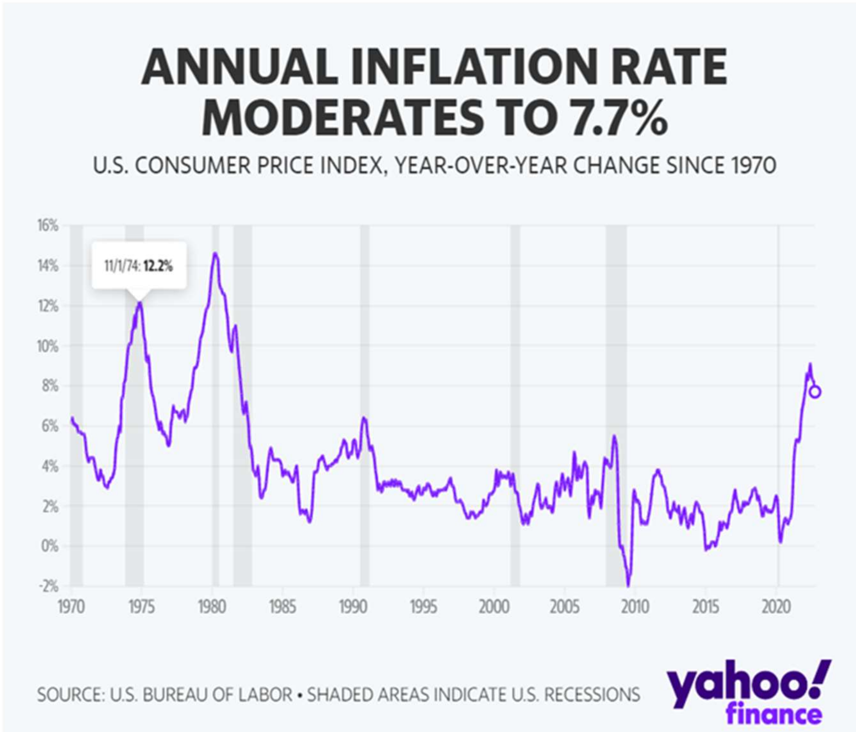
U.S. inflation eased slightly last month as the Federal Reserve raised interest rates to get a grip on prices that have surged at a historic pace.

The Consumer Price Index (CPI) in October reflected a 7.7% increase over last year and 0.4% increase over the prior month, the Bureau of Labor Statistics said Thursday. Economists had expected prices rose at an annual 7.9% clip and 0.5% month-over-month, per Bloomberg consensus estimates.

On a "core" basis, which strips out the volatile food and energy components of the report, prices rose 6.3% year-over-year and 0.3% over October. Expectations called for a 6.5% annual increase and 0.5% monthly increase in the core CPI reading. Core CPI's decline was meaningful after the measure hit its highest level since 1982 in September.



The Federal Reserve keeps a closer eye on "core" inflation, which offers policymakers a more focused look at inputs like housing. Headline CPI, in contrast, has moved largely in conjunction with erratic energy prices this year.

While October's figures showed inflationary pressures remained elevated, some signs of cooling prices were present in the release. The indexes for used cars and trucks, medical care, apparel, and airline fares all declined over the month. Meanwhile, shelter — which comprises nearly one-third of the basket for consumer price inflation — contributed to over half of the monthly all-items increase. Prices on gasoline and food also continued to rise.

"If this constitutes improvement, we’ve set a very low bar," Bankrate Chief Financial Analyst Greg McBride said in a note. “The pervasiveness of price increases remains problematic."

"The areas posting declines are for the most part either irregular or more discretionary in nature – airfare, used cars, and apparel," McBride added. "Any meaningful relief for household budgets is still somewhere over the horizon.”

Looking into individual aspects of the report, housing prices continued their climb, with the cost of shelter recording its largest month-on-month increase — 0.8% — since August 1990, while rising 6.9% from a year ago.

The food index increased 0.6%, down slightly from September's 0.8% increase, and the prices of food at home rose 0.4%, the smallest monthly advance across the index since December 2021. Still, four of the six major grocery store food group indexes rose over the month.

A man shops for produce at Best World Supermarket in the Mount Pleasant neighborhood of Washington, D.C., U.S., August 19, 2022. REUTERS/Sarah Silbiger

The report propelled [U.S. stocks forward] and sent Treasury yields tumbling as Wall Street weighed the implication of softer prints on Federal Reserve policy. Moderations in economic data have prompted hopes that the U.S. central bank will scale back on its aggressive policy stance, but Fed Chair

Jerome Powell stressed earlier this month that no plans for a pause were underway.

While CPI cooled more than expected in October, opening the door for a possible easing in the U.S. central bank's tightening plans, inflation remains well above the Fed's target of 2%.

"The first downside surprise in inflation in several months will inevitably be received by an equity market ovation," Principal Asset Management Chief Global Strategist Seema Shah said in emailed comments. "For now, however, despite both core and headline inflation easing, the best we can expect from the Fed is a downshift in the pace of tightening."

Shah, along with a flurry of other strategists, reiterated that a 0.5% rate increase is still in the cards for December — and until a longer trend of these readings, a pause on hikes is still elusive.

"Let the market enjoy today, it still has another 100 basis points or so of tightening to commiserate," she said.

WASHINGTON, DC - OCTOBER 14: Chair of the U.S. Federal Reserve Jerome Powell checks his phone during a meeting of the IMFC (International Monetary and Financial Committee), October 14, 2022 in Washington, DC. (Photo by Drew Angerer/Getty Images)

Federal Reserve officials have repeatedly signaled that while the size and magnitude of hikes may slow, the fight against inflation is nowhere near over, and signaled the likelihood of a higher than expected liftoff of its key policy interest rate.

A wave of Wall Street strategists in recent weeks have raised their bets on how much the central bank will ultimately raise its federal funs rate.

Goldman Sachs was the first among big banks in the days leading up to November's FOMC meeting to warn rates may rise as high as 5% by March 2023.

After Friday's better-than-expected jobs report, economists at Bank of America upwardly revised their projections to a terminal rate of 5.0-5.25%

from 4.75-5.0% and said the institution anticipates a 0.50% increase for December.

TD Securities lifted its terminal rate forecast from a range of 4.75%-5.00% to 5.25%-5.50% and sees a 50-basis-point hike at the next meeting Dec. 13-14. BNP Paribas expects a fifth 75-basis-point increase next month and a terminal fed funds level of 5.25% in the first quarter of next year.

“We think risks to our revised FOMC rate path continue to lie to the upside and upcoming prints on CPI inflation and the November employment report will weigh heavily on the near-term path for Fed policy,” strategists led by Michael Gapen wrote in a recent note.