

AEGON INSIGHTS

Macro Musings: October CPI in the books

With the recent back-up in interest rates, the market was set up for a hot consumer-price index (CPI) print. What it got was lukewarm.

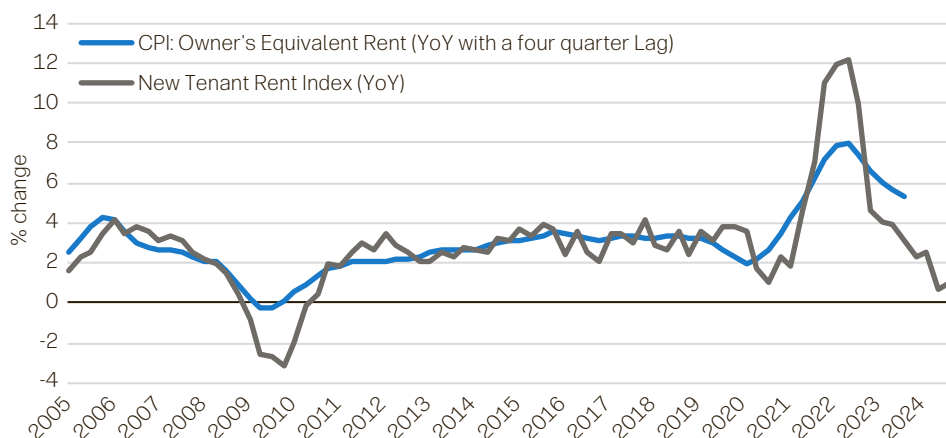
Headline CPI came in at 0.2% in October compared to September. Meanwhile, core CPI, which comprises roughly 80% of the index) was 0.28%. The fear was that it would come in the high 0.3%'s and be rounded up to 0.4%.

Digging a little deeper, core CPI, ex-shelter (which is 45% of the index) was 0.19% for the month (2.4% annualized). Annualizing the past 3, 6 and 12 months this index is at 1.6%, 1.6% and 2.0%, respectively.

We point out the difference between the core CPI and the core CPI ex-shelter readings because the shelter component is very lagged given the calculation methodology.

The new rent index is running 1.0% on a year-over-year basis. But old, increased rents are what has anchored the overall number higher. Over time those will roll off—typically the new rent index leads by four quarters. It's also worth noting that the shelter component is a much smaller percentage of the % of the personal consumption expenditures (PCE) calculation.

Shelter costs



Sources: Bureau of Labor Statistics, Haver Analytics. Data as of November 2024.



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Frank Rybinski, CFA, is head of macro strategy responsible for guiding the firm's global macroeconomic view as it pertains to tactical and strategic asset allocation. This includes analysis of the economy, interest rates, and the relative value between asset classes. In this capacity, Frank frequently appears in leading financial media outlets like Bloomberg, CNBC, Fox Business and the Wall Street Journal. Prior to his current role, Frank was a credit strategist for UBS Investment Bank. Prior to that, he worked as an analyst for ZT Zurich Trust in Zurich, Switzerland. Frank began his career as a trader for Spear, Leeds & Kellogg and held a similar position at The Royal Bank of Scotland. He has been in the industry since 1996 and started with the firm in 2008. Frank received his BA in economics from Boston College. He is a CFA® charterholder.

Our early read-through for the core PCE reading is about 0.2% for October (2.7% year over year). We'll know more when the latest producer price index data is released on Thursday.

Overall, inflation is behaving for the most part. Yes, there is always noise in every print, but looking at Wednesday's data doesn't support the notion of a broadening acceleration. As a result, we see no near-term reason for Federal Reserve to alter its interest-rate path and expect another 25-basis-point cut at the December meeting.

Separately, the Senior Lending Officer Survey, which came out Tuesday, continued to show softening demand for money, on both the consumer and commercial and industrial loans. That echoes a point we've been making: That the level of interest rates ultimately matters for economic activity and that they are still in restrictive territory.

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