

November 15, 2022

Consumer Price Index Report - October 2022

The Consumer Price Index report was issued today and the headline number of 7.7% for the year ended October was below the expected 7.9% and below the September year/year result of 8.2%. The markets reacted positively to the news that inflation came in below last month and below what the market expected. The equity market had a strong day, bringing month to date returns from -3% to +2% for the S&P 500. The 10-year Treasury yield (price up) declined to 3.82 from 4.22 at the beginning of the week.

While overall declines in many of the CPI categories was good news, let's look in detail at the positives and negatives. The positives include:

- All items: 0.4% for month, 7.7% for year ended October (this is down from 8.2% year/year September)
- All items less food and energy: 0.3% for month down from 0.6% in September and 6.3% for year ended October (down from 6.6% year/year for September).

The declines in rate of increase in 13 major categories in the month is positive. They included declines in food (0.6% increase is smallest in last seven months) and energy services (-1.2%). Other positives were the lower rate of change in new cars and that used cars actually declined month/month (0.4% and -2.4%). Finally, services were lower (0.5%). As you will recall while goods inflation (think furniture, electronics) has been declining for several months, it was offset by increased prices in services (think travel). So, having a relatively good number on the services side is also good news. As an aside, one of the highest increases in the service category over the last year has been airline tickets (up 42.9%). In the month of October, airline prices were also down -1.1%. Maybe we are seeing the long-awaited slowdown in spending?

On the negative side:

There was a continued increase in shelter (0.8%) which is the highest rate since October of 1990. Shelter is a large weight in the CPI calculation (33%). The market may be discounting this very lagging indicator, but we are not out of the woods.

As for other areas of worry, digging into the all-important food and energy components, four of the six grocery items increased in the month, with declines only in fruits, vegetables, and dairy. Energy commodities gas and fuel oil were up 4% and 19.8% respectively. While these are always volatile month to month, this represents the largest increases since June.

So, is this enough to get the Federal Reserve pivoting to a lower rate environment? Doubtful. One month does not a trend make. But as seen in the financial market's response, markets are a forward-looking mechanism.

Bottom line: while good news in 2022 is a rare and beautiful thing, it is too early to call victory. Let's wait and see if the trend continues.