RBC Economics & Thought Leadership

Daily Economic Update

November 10, 2022

U.S. inflation showed very early signs of easing in October

- Headline CPI growth slowed to 7.7% year-over-year as pressure for nearly all major expenditure categories weakened
- Rent prices increasingly the largest driver of price pressure in the U.S. but growth is nearing a peak
- Early signs of easing inflation pressure are encouraging, but further cooling in consumer demand and more Fed rate hikes needed to persistently slow inflation

RBC Inflation Watch: a tracker of key indicators on price trends in the US.

Read Report

CPI growth in the U.S. slowed to 7.7% on a year-over-year basis in October supported by relatively broad-based easing in inflation pressure among food, energy and other commodities. The year-over-year increase in gasoline prices cooled despite a tick higher in prices at the pump from a month earlier. Growth in food prices also continued to slow from its recent peak in August, but down to a still-elevated 10.9% above a year ago. Excluding food and energy products, core inflation in October slowed to 6.3% year-over-year thanks to a smaller 0.3 month-over-month increase from September. That monthly increase is still above the 'normal' pace of monthly price growth pre-pandemic, but was for the most part driven by another surge in home rents. Indeed, higher rent prices have been driving an increasingly larger portion of underlying inflation pressure in the U.S. - roughly half the month-over-month increase in core prices in October. That should start to reverse soon, given early signs of moderation in observed market rent indexes that typically lead the official rent measure in CPI.

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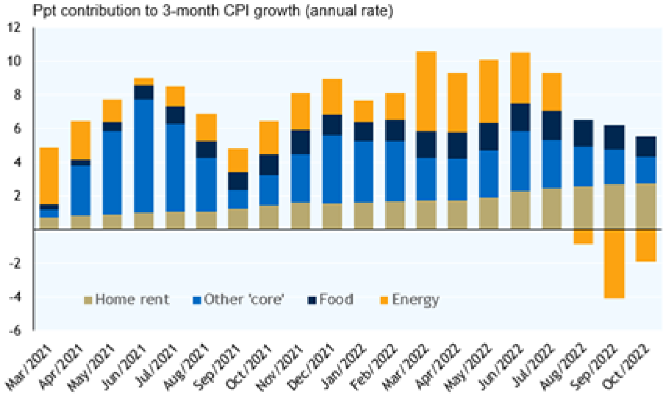
The downside surprise in core U.S. CPI in October was a welcome one. Recent near-term trends in core inflation readings have been looking marginally better. Among other 'core' items, goods inflation continued to weaken - growth in commodities prices excluding food and energy products have been declining since early 2022 as consumer demand pulls back from very high levels. Items like apparel and used vehicles have actually been seeing outright declines in prices in recent months. Even services inflation (ex-rent) that has been rising sharply over 2022 actually edged lower in October from a month earlier. But despite some signs of softening in purchases of good, consumer demand is still very strong and inflation pressure broad-based - we counted close to 90% the CPI basket (excluding shelter) were still seeing above-target level of annualized price growth from pre-pandemic in October. Labour market conditions also remain tight with the unemployment rate hovering around multi-decade lows. Overall, more slowing in consumer spending is needed for inflation to ease more substantially and sustainably towards the Federal Reserve's 2% objective. We expect the Fed will continue to push interest rates higher until policymakers are confident that will be achieved, with a 50 bp hike still likely for its meeting in December.

U.S. CPI Growth

	Aug-22	Sep-22	Oct-22	Oct-22
	MoM % change (SA)			*YoY % chang*
Headline	0.1	0.4	0.4	7.7
Food	0.8	0.8	0.6	10.9
Energy	-5.0	-2.1	1.8	17.6
Core	0.6	0.6	0.3	6.3
Goods ex food and energy	0.5	0.0	-0.4	5.1
Services ex energy	0.6	0.8	0.5	6.7

Early signs of easing inflation pressures in the U.S.

Ppt contribution to 3-month CPI growth (annual rate)



Source: Bureau of Labor Statistics, RBC Economics Research