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Chart of the Day

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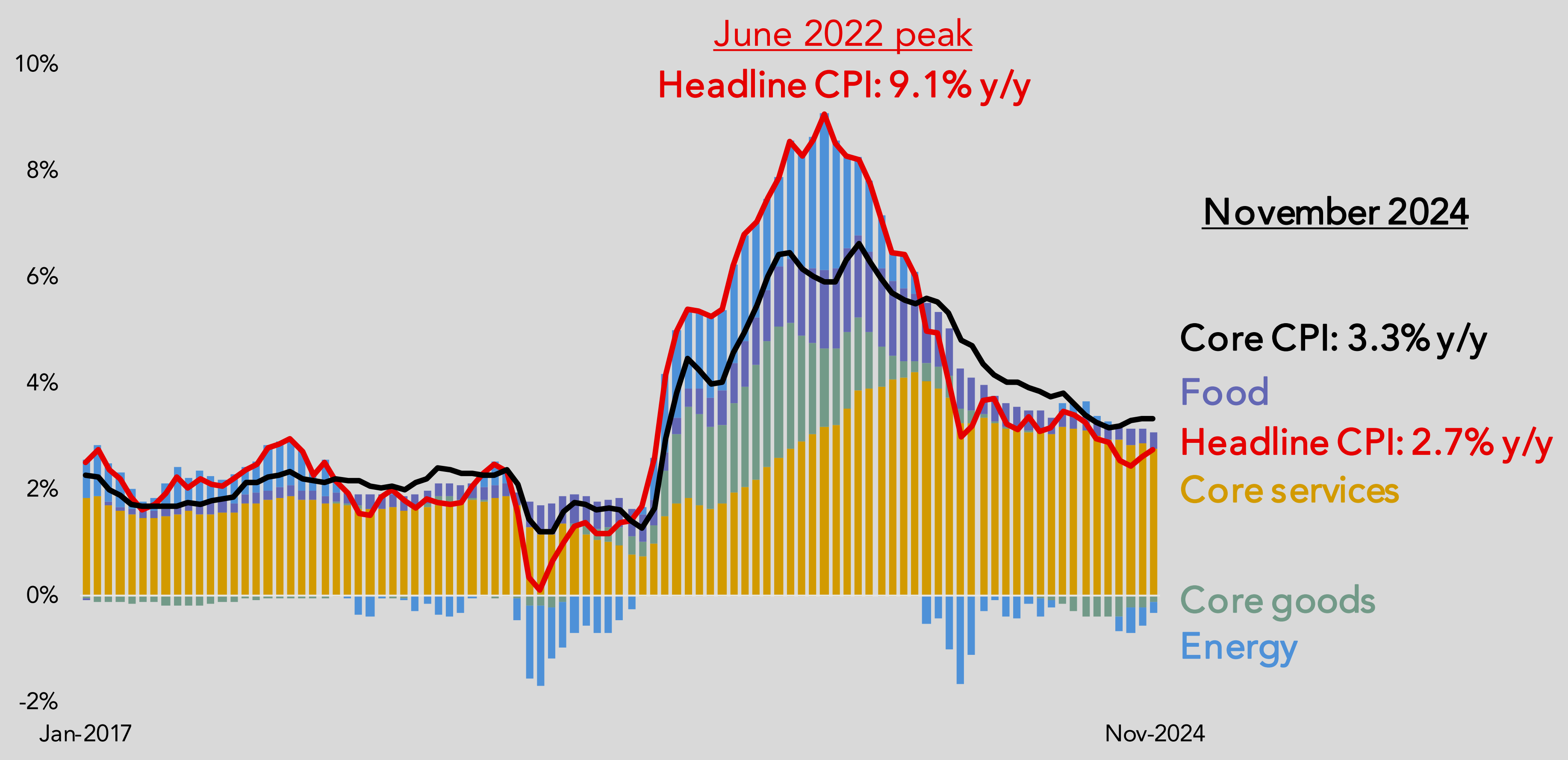
November headline and core CPI matched consensus expectations on both a monthly and annual basis. Headline inflation rose 0.3% m/m and 2.7% from the year before, the second acceleration on an annual basis since March. Core inflation rose 0.3% for the fourth consecutive month, and 3.3% y/y for the third month in a row. All major categories saw an increase in costs for the first time since February. Used vehicle and food prices helped push up the headline index, with the 2.4% y/y gain in food the most since January. The disinflation trend appears to have stalled for now, though prices are down significantly from the mid-2022 peaks.

Breakdown of CPI by components



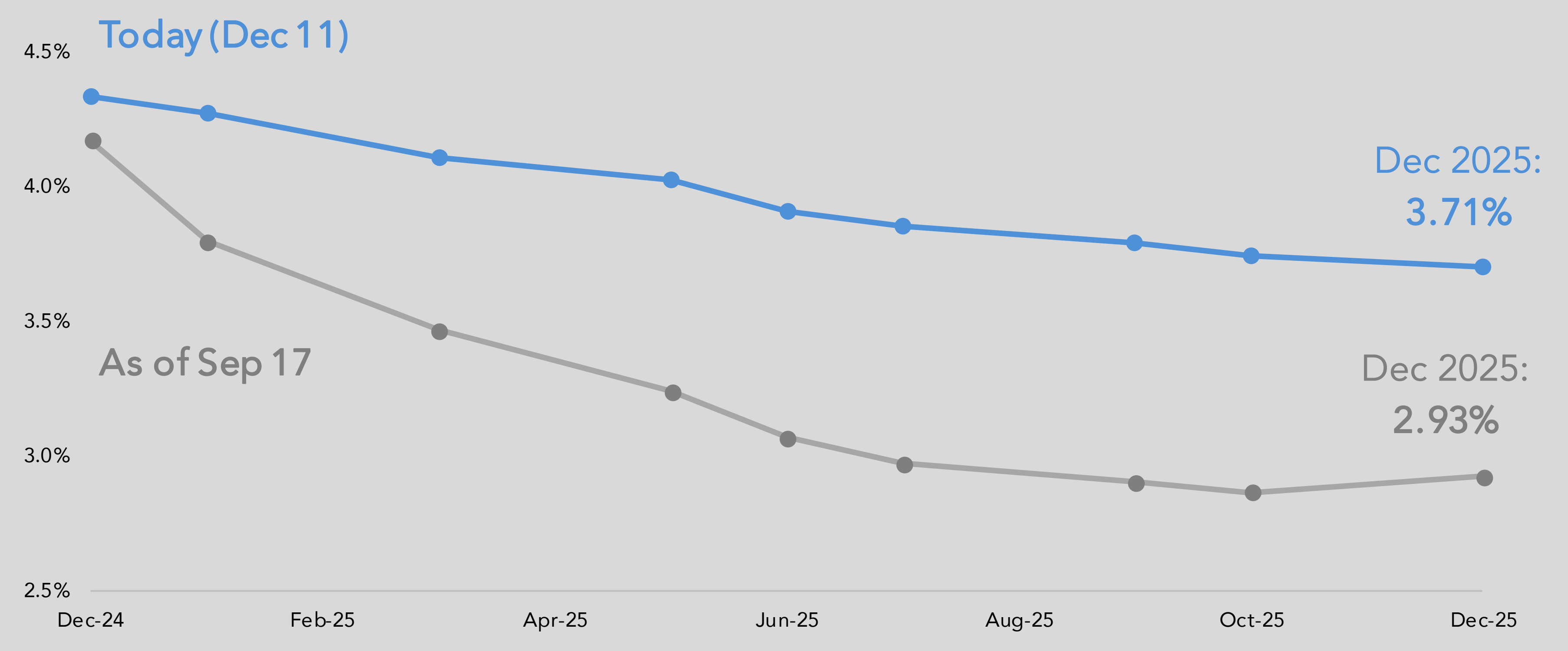
The November inflation report came in exactly as expected, with headline CPI rising 0.3% m/m and 2.7% y/y, the first back-to-back annual acceleration since March. Core CPI rose 0.3% m/m and 3.3% y/y, with nearly 40% of the increase driven by housing costs.

November CPI inflation actual vs. estimates

Metric	Actual	Estimate	Difference
Headline CPI y/y	+2.7%	+2.7%	+0.0%
Headline CPI m/m	+0.3%	+0.3%	+0.0%
Core CPI y/y	+3.3%	+3.3%	+0.0%
Core CPI m/m	+0.3%	+0.3%	+0.0%

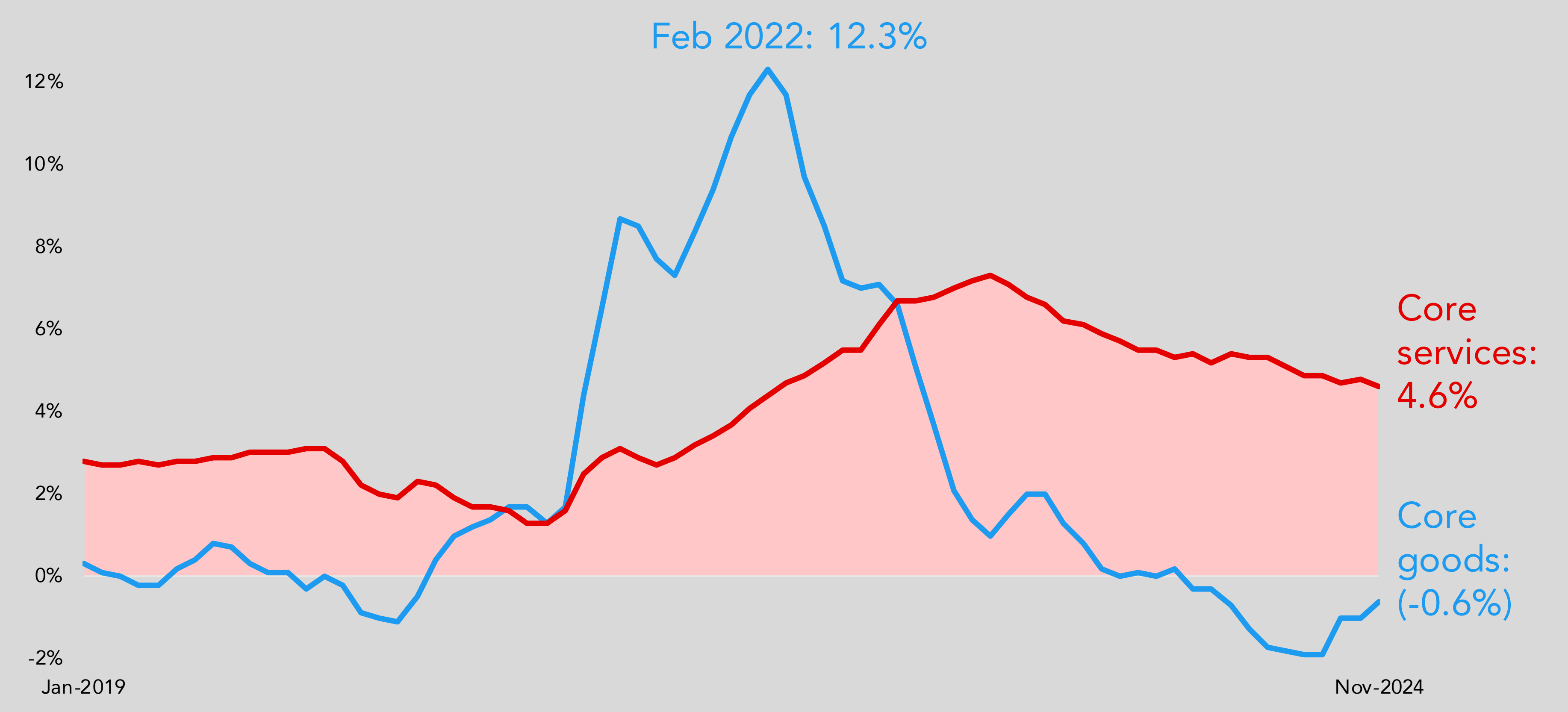
Following rising expectations of a “Republican sweep” and larger fiscal expansion since late September, the Fed Fund’s forward curve has dampened expectations for rate cuts in the year ahead. Although the market is pricing nearly a 100% probability of a Fed cut in December, expectations for additional cuts through YE 2025 are notably lower.

Marked implied Fed Funds rate (Sep 17 vs. today)



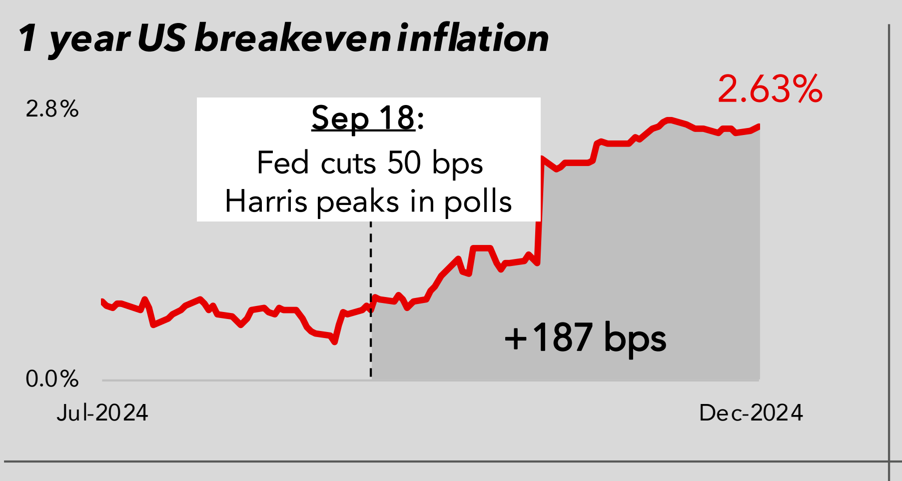
Core goods prices, one of the key drivers of disinflation for much of the last year, rose for a third consecutive month, driven in part by a jump in car prices. Energy prices, another source of disinflation, are also starting to see renewed price pressures. Services inflation slowed as shelter costs rose 0.3% m/m and 4.7% y/y, the smallest annual increase since February, though still accounting for nearly 40% of the overall monthly increase. Owner’s equivalent rent, the estimated cost of housing for homeowners, rose just 0.2% m/m in November, the smallest rise since January 2021.

US core goods and services inflation, y/y

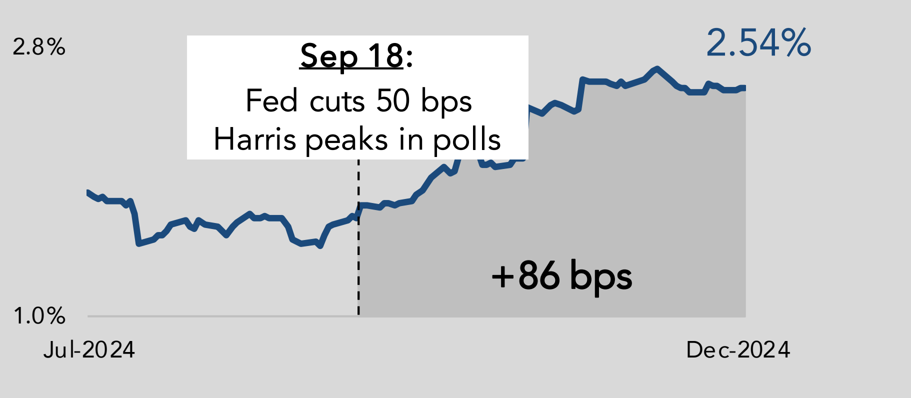


Even as inflation has fallen precipitously over the last two years, rising inflation break-evens suggest investors are on edge about “expected” US inflation. Numerous factors contributing to this uncertainty include: (1) stickiness in core and services inflation; (2) President-elect Trump’s policy positions (fiscal, trade, immigration); (3) the Fed’s pivot to easing; and (4) potential challenges to Fed policy independence.

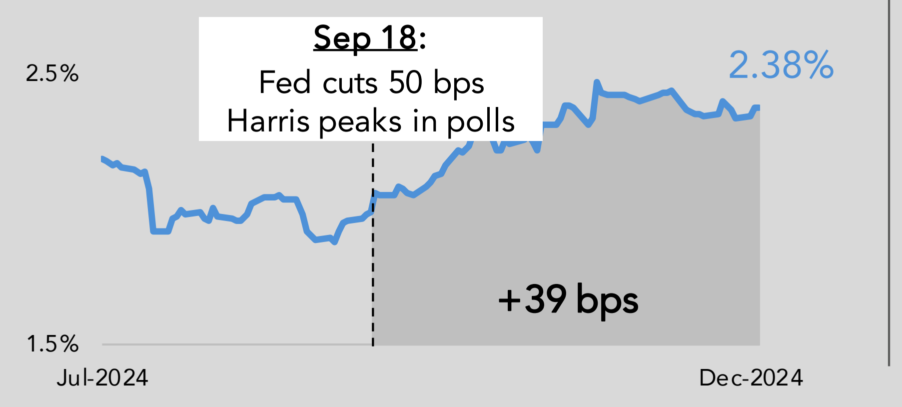
1 year US breakeven inflation



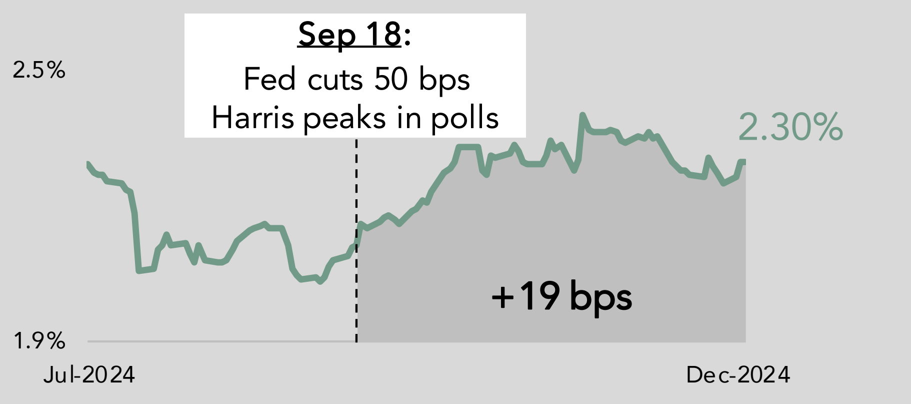
2 year US breakeven inflation



5 year US breakeven inflation



10 year US breakeven inflation



While m/m inflation data provides very useful information on the recent momentum in (dis)inflation, a look at today’s CPI data on a y/y basis provides a useful lens on the categories in which the consumer is feeling the most cost pressure (and relief) relative to one year ago.

November US inflation by sector (y/y)

Energy | Food | Core goods | Core services

Eggs	38%	Funeral expenses	3%	Medicinal drugs	0.3%
Motor vehicle insurance	13%	Electricity	3%	Intracity mass transit	0%
Transportation services	7%	Professional services	3%	Pets & pet products	0%
Veterinarian services	7%	Public transportation	3%	Cereals & bakery products	(-1%)
Tobacco & smoking products	7%	Energy services	3%	Wireless phone services	(-1%)
Financial services	7%	Physicians' services	3%	New trucks	(-1%)
Day care and preschool	6%	Nonalcoholic beverages	3%	Internet services	(-1%)
Health insurance	6%	College tuition and fees	3%	New vehicles	(-1%)
Motor vehicle maint. & Repair	6%	Meats	3%	Cosmetics	(-1%)
Water & sewerage maint.	6%	Photo equipment & supplies	2%	Household furnishings & supplies	(-1%)
Laundry & cleaning services	5%	Milk	2%	Appliances	(-1%)
Owners' equivalent rent	5%	Land-line phone services	2%	Recreational reading	(-1%)
Nursing homes	5%	Tires	2%	Furniture & bedding	(-2%)
Rent of shelter	5%	Utility gas service	2%	Tools, hardware & supplies	(-2%)
Shelter	5%	Alcoholic beverages	2%	Sporting goods	(-3%)
Airline fares	5%	Food at home	2%	Outdoor equip. & supplies	(-3%)
Moving, storage, freight expense	5%	Computer software and accessories	2%	Energy	(-3%)
Services less energy services	5%	Motor vehicle parts and equipment	2%	Used cars and trucks	(-3%)
Delivery services	4%	Music instruments & acces.	1%	Toys	(-4%)
Garbage & trash collection	4%	Technical & bus. school tuition	1%	TVs	(-4%)
School tuition	4%	Fruits and vegetables	1%	Computers and smart home assistants	(-6%)
Hospital services	4%	Apparel	1%	Car & truck rental	(-8%)
Medical care services	4%	Audio equipment	1%	Motor fuel	(-8%)
Lodging away from home	4%	Housekeeping supplies	1%	Energy commodities	(-9%)
Food away from home	4%	Footwear	1%	Smartphones	(-10%)
Recreation services	4%	Vehicle accessories	1%		
Jewelry and watches	3%	Personal care products	1%		

Source: (1-10) Bureau of Labor Statistics. CPI Report November 2024. Bloomberg. Data as of December 11, 2024. Goods is commodities less food and energy commodities. Services is less energy.

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“Macro stability isn’t everything, but without it, you have nothing.”