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**BNY MELLON INVESTMENT MANAGEMENT**

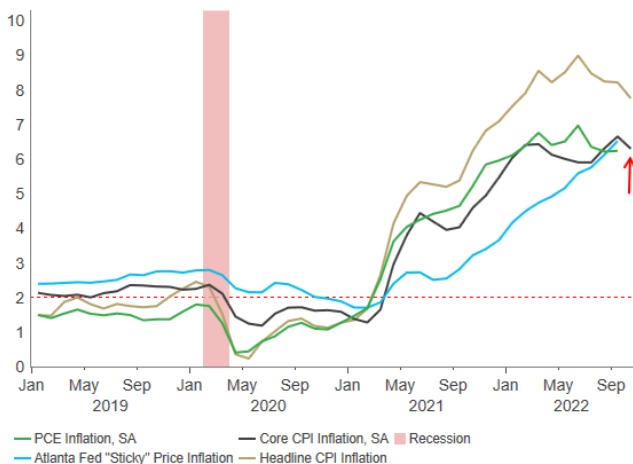


# US inflation momentum slows in October

## Key points

- **US October Consumer Price Index (CPI)** was weaker than expected in both headline and core (ex food and energy). The deceleration in core inflation should be particularly comforting for the Fed.
- **Risk assets rallied on the news:** Treasury yields declined as much as 17 basis points, S&P500 futures rose almost 3%, and gold prices rose by over 1%.
- Headline CPI increased 0.4% m/m (vs 0.4% in September, 0.6% expected) and core increased 0.3% m/m vs 0.6% in September, 0.5% expected).
- Headline CPI moved down to 7.7% y/y vs 8.2% in September (7.9% expected) and core was 6.3% y/y vs 6.6% in September (6.5% expected)
- **Transportation and medical care services were the biggest contributors to the decline;** both were expected, but not to the degree that transpired.
- **Shelter inflation was still strong** with tenants' rent up 0.7%. However, shelter prices in the CPI report are known to be lagged. Forward-looking rent indicators (not part of the CPI report) have suggested deceleration. This may take time to transpire in official statistics.
- Overall, **the report suggests that peak inflation may finally be behind us**, though inflation may remain elevated for a while.
- As such, the October CPI report also **supports an expectation for a deceleration in the Fed's hiking path to 50 bps in December**, telegraphed at the November FOMC meeting.
- Market-estimated probability of a 50 bps hike in December is now at 80%, according to CME Group.
- **However, it is also important to not over-emphasize one report for inflation and policy trajectory. Recall that US inflation printed below consensus in March and July 2022, but neither print augured a lasting deceleration in price momentum. Indeed, inflation prints surprised above consensus as recently as in August and September 2022.**
- In other economic news, initial jobless claims for the week of Nov 5 ticked up to 225k from 217k last week, an early indicator of potential labor market weakening that should also help tame inflation, all else equal.

## US Consumer Price Inflation



Source: Macrobond, BNY Mellon Investment Management  
U.S. Bureau of Labor Statistics (BLS), Federal Reserve Bank of Atlanta, U.S. Bureau of Economic Analysis (BEA), NBER (Na  
Data as of Thursday, November 10, 2022

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