

Economic Analysis

Broad-based Increase in October Headline CPI

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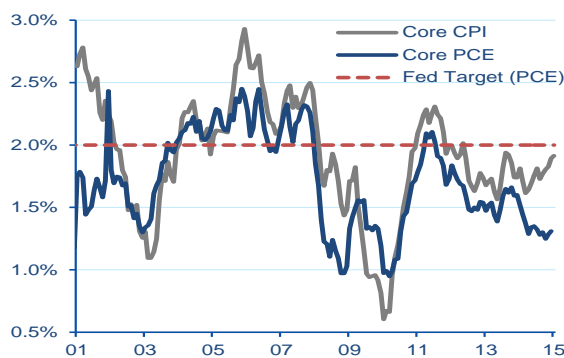
- **Headline CPI met expectations, increasing 0.2% MoM and YoY**
- **The energy index was up 0.3% MoM but declined 17.1% YoY**
- **Core CPI rose 0.2% MoM and 1.9% YoY, driven by higher medical and shelter prices**

Headline CPI for October was in line with expectations, rising 0.2% MoM, after two consecutive declines. The increase was seen across several categories, including food, energy and other items. Prices for new and used autos and apparel were among the few that experienced declines last month, reflecting the continuing impact of the strong dollar on import prices. Following a steep decline in the previous two months, the energy index bounced back with a 0.3% rise MoM, but continues to decline on a YoY level, dropping 17.1%. October's MoM upturn in energy prices seems to have closed the gap between headline CPI and core CPI which was evident in September.

Core CPI, which excludes the volatile food and energy categories, was up a promising 0.2% MoM and 1.9% YoY for the second month in a row. The rising prices of shelter and medical care were the driving forces behind this increase. Medical care services experienced the greatest increase of all categories in October on a MoM level, with a 0.8% rise, which pushed the YoY level up 3.0%. This increase is primarily attributable to a surge in the price of hospital services, which were up 2.0% MoM—their greatest increase since August 2013. Meanwhile, shelter prices continued their steady climb and had the biggest YoY rise last month, up 3.2% and 0.3% MoM.

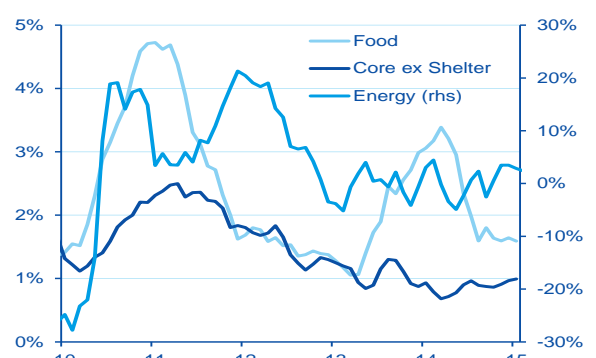
The Fed's preferred inflation metric, the PCE index, dropped 0.2% YoY in September—its lowest level of 3Q15. In addition, the strong dollar continues to demonstrate its impact on the prices of imported goods, such as apparel and cars. However, with this release, CPI is finally beginning to show some pressure at both the headline and core levels. We maintain our expectations for a rate hike in December given the encouraging core CPI level along with data released earlier this month indicating a tightening labor market and wage increases, which should boost consumption during the remainder of the year.

Chart 1
Inflation Metrics (YoY % Change)



Source: BLS, BEA & BBVA Research

Chart 2
Selected Inflation Components (YoY % Change)



Source: BLS & BBVA Research

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