

US Inflation Watch**Core inflation rose less than expected in Oct ...**

Javier Amador / David Cervantes

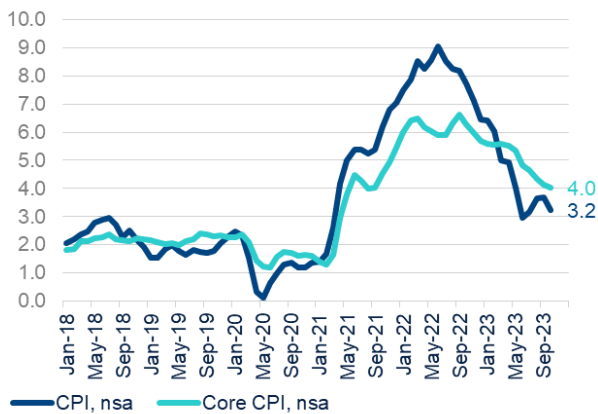
November 17, 2023

... while headline inflation resumed its downward trend

- The Consumer Price Index (CPI) resumed its downward trend and fell to 3.2% YoY in October —a 0.5 percentage point decrease from the previous two months' level that had remained unchanged. This drop in the annual rate and resumption of the downward trend was possible because headline inflation remained unchanged monthly. This favorable print can be attributed to a lower-than-expected core print alongside base effects, as housing-related prices started to exhibit a more meaningful moderation and energy prices experienced a sharp fall.
- Previously displaying positive variations, energy prices recorded a monthly decrease of (-)2.5% and a year-on-year decline of (-)4.5%. Gasoline prices within this category had a noteworthy negative year-on-year variation of (-)21.4%, emerging as the primary contributor to the monthly decline.
- Concerning core inflation, housing-related prices, the component with the greatest weight, finally exhibit a more pronounced deceleration. For October's inflation, this component played a key role as the growth in Owners' Equivalent Rent of Residences prices slowed down with a monthly variation of only 0.4%, 0.2 pp less than the increase of the previous month. This also led to a 0.2 percentage point drop in its year-on-year rate compared to the previous month, reaching 6.8% YoY.
- Transportation services played a determining role in preventing a more substantial deceleration of core inflation, with a monthly variation of 0.8% and a year-on-year variation of 9.3%. Notably, within this category, the increase is primarily attributed to shifts in motor vehicle insurance prices, rising by 2.3% month-on-month and 19.2% year-on-year.
- Overall, both headline and core inflation continue to exhibit better performance than in previous years. However, housing prices and transportation services, accounting for 2.9 percentage points of the total 3.2% inflation, will continue to play a crucial role in further reducing inflation.
- We anticipate that inflation will continue to cool down in the coming months. We expect headline inflation to average 3.4% YoY in 4Q and core inflation to 4.0%.

Core inflation continues to ease steadily, and excluding housing costs, which remain...

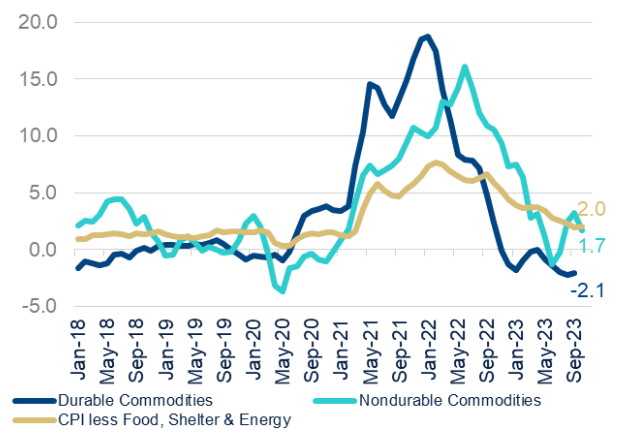
Figure 1. **CONSUMERS PRICE INDEX (CPI)**
(YoY %, NSA)



Source: BBVA Research based on data by Haver Analytics.

... the largest contributor to inflation, it stayed at 2.0% YoY for the second month in a row

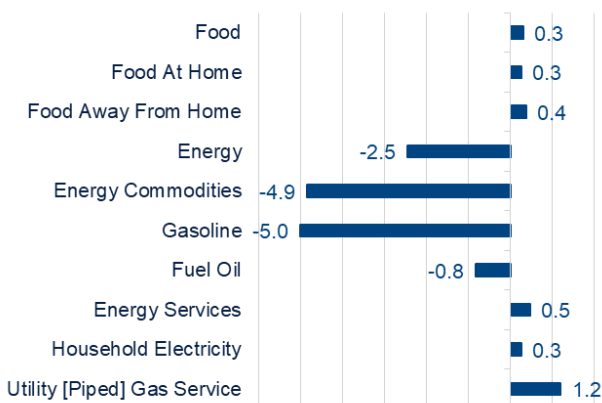
Figure 2. **CPI SELECTED ITEMS**
(YoY %, SA)



Source: BBVA Research based on data by Haver Analytics.

Energy prices declined by (-)2.5% month-on-month, effectively offsetting ...

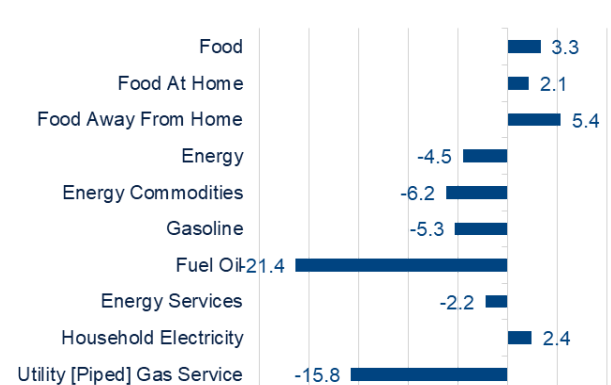
Figure 3. **CPI ALL ITEMS LESS CORE**
(MoM %, SA)



Source: BBVA Research based on data by Haver Analytics.

... the rise in food prices, which registered a 3.3% year-on-year increase.

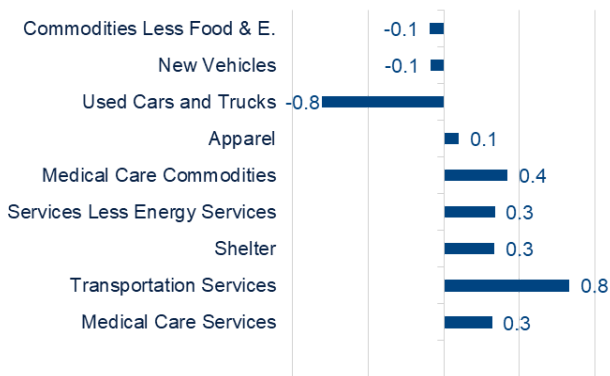
Figure 4. **CPI ALL ITEMS LESS CORE**
(YoY %, SA)



Source: BBVA Research based on data by Haver Analytics.

Used cars had a decrease of (-)0.8%, contributing to a (-)0.2 pp reduction in inflation. Conversely, transportation services ...

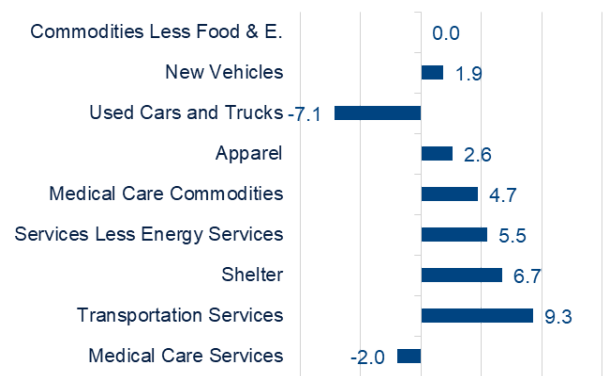
Figure 5. **CORE CPI**
(MoM %, SA)



Source: BBVA Research based on data by Haver Analytics.

... exhibited the highest growth (9.3% YoY), driven by a jump in motor vehicle insurance prices.

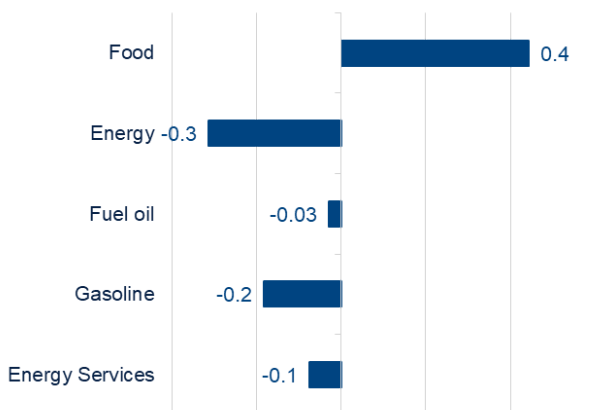
Figure 6. **CORE CPI**
(YoY %, SA)



Source: BBVA Research based on data by Haver Analytics.

Within non-core inflation, lower energy prices offset the rise in food prices.

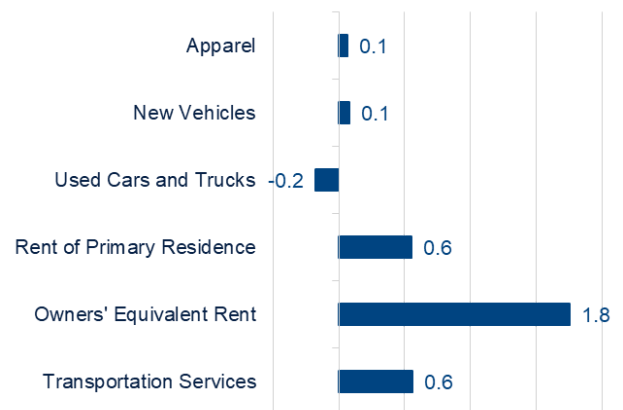
Figure 7. **CONTRIBUTION TO INFLATION BY NON-CORE CPI ITEMS**
(PERCENTAGE POINTS)



Source: BBVA Research based on data by Haver Analytics.

Housing costs remain the biggest contributor to inflation, accounting for more than half in Oct.

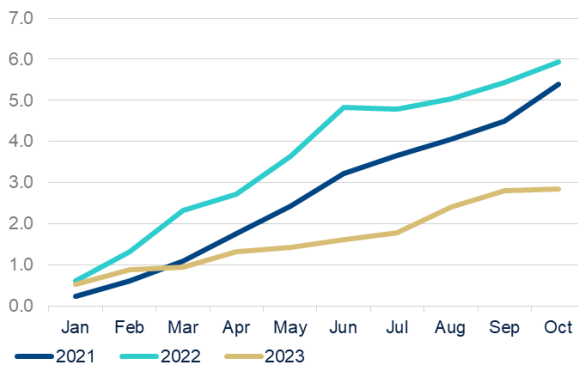
Figure 8. **CONTRIBUTION TO INFLATION BY CORE CPI ITEMS**
(PERCENTAGE POINTS)



Source: BBVA Research based on data by Haver Analytics.

Accumulated inflation is now well below the trend of the past two years, ...

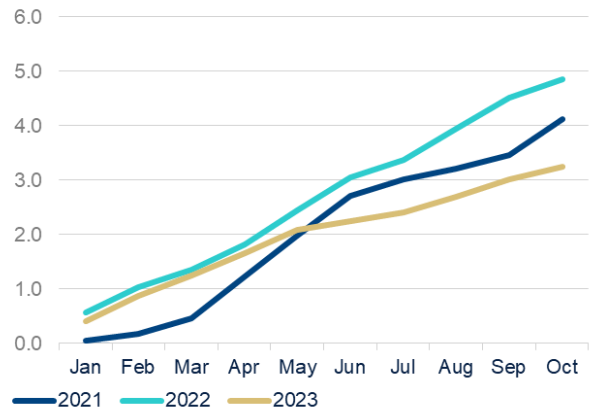
Figure 9. **CPI**
(CUMULATIVE MoM %, SA)



Source: BBVA Research based on data by Haver Analytics.

... while core inflation is now running c. 2 pp last year's trend

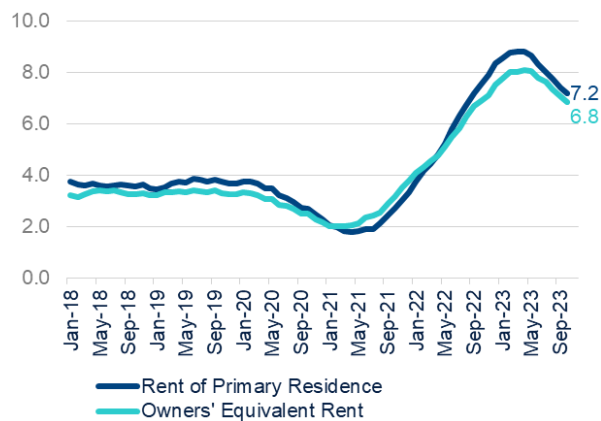
Figure 10. **CORE CPI ITEMS**
(CUMULATIVE MoM %, SA)



Source: BBVA Research based on data by Haver Analytics.

Housing costs remain very high, but they are starting to show a more noticeable slowdown

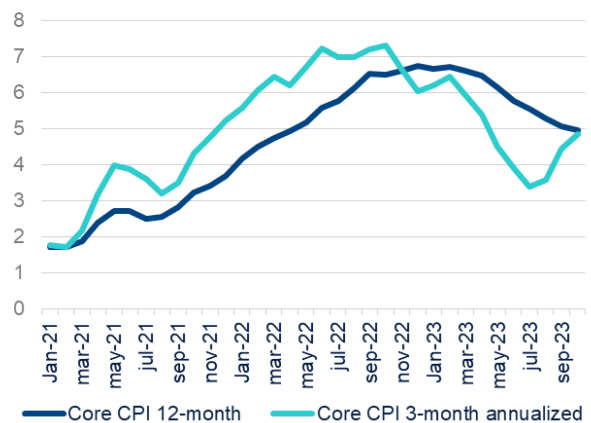
Figure 11. **CORE INFLATION BY SHELTER CATEGORIES**
(YoY %, SA)



Source: BBVA Research based on data by Haver Analytics.

Yet, the 3-month annualized sticky core measure shows short-term stickiness

Figure 12. **ATLANTA FED STICKY CORE CPI**
(YoY %, SAAR)



Source: BBVA Research based on data by Haver Analytics.

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BBVA Research: Paseo de la Reforma 510, Colonia Juárez, C.P. 06600 Mexico City, Mexico.

Tel.: +52 55 5621 3434

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