



The Daily Dish

October CPI

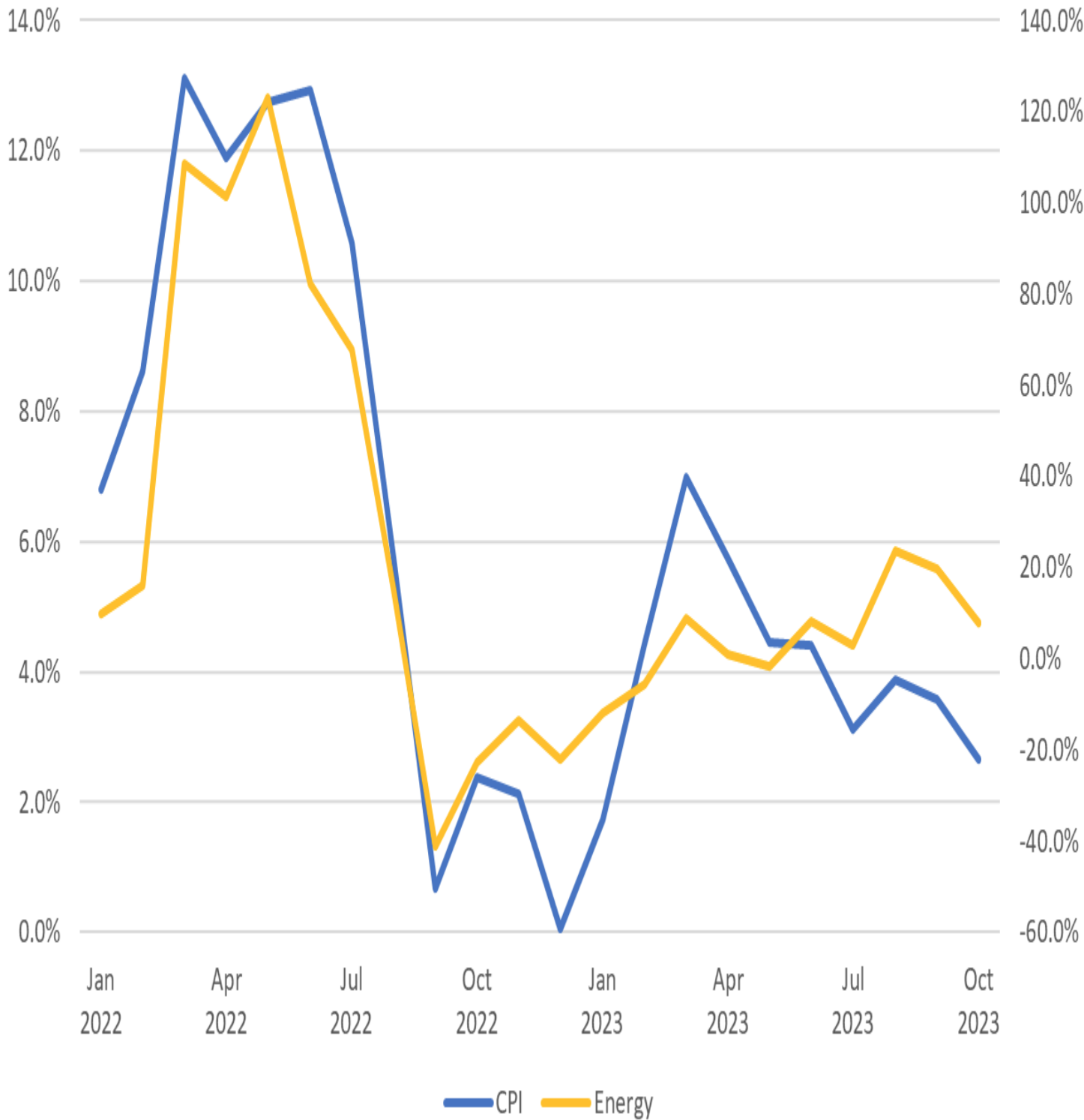
DOUGLAS HOLTZ-EAKIN | NOVEMBER 15, 2023

Yesterday the Bureau of Labor Statistics (BLS) released the October report on the Consumer Price Index (CPI). On the whole the report was good news, and an incremental step in the Federal Reserve's fight against the worst inflation in 40 years. It was not great news, as the reaction of financial markets might lead one to believe. Here's a quick guide to short-run movements in the inflation measures.

The overall CPI was unchanged in October – literally 0.0 percent inflation – which caused the year-over-year inflation to decline from 3.7 to 3.2 percent. But the apparent cessation of inflation was entirely driven by a decline in the energy component of the CPI at an annualized rate of 37.1 percent. That's a transitory blip that won't contribute to returning to the 2 percent target on a sustained basis.

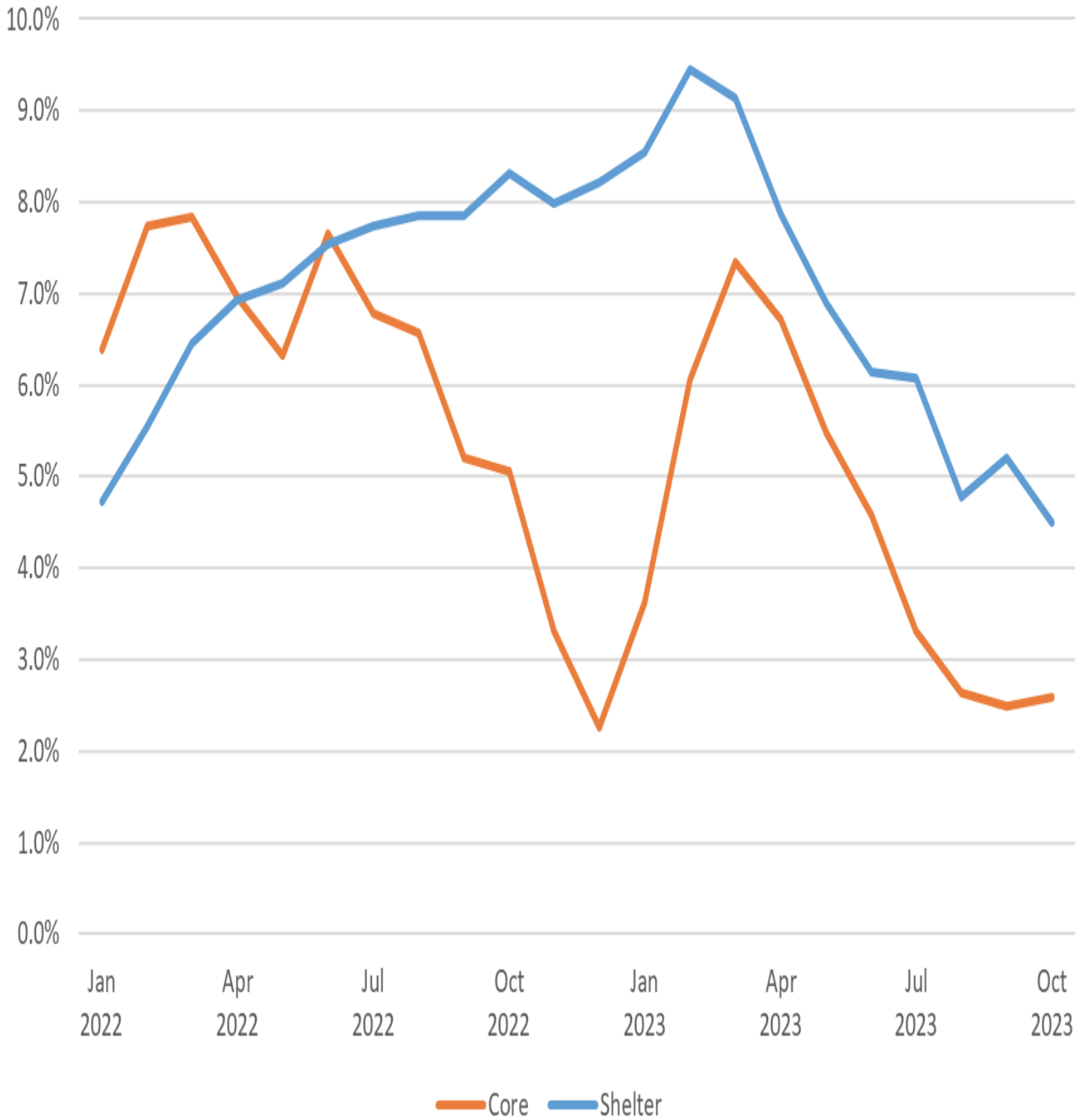
Indeed, this is a theme of the inflation data since January 2022. The graph below shows the three-month moving average of monthly inflation (at an annual rate) for the overall CPI (blue) and the energy component (yellow). As energy inflation goes up and down, so does overall inflation. Overall inflation got as low as 3.0 percent (year over year) only to go back up to 3.7 percent as energy inflation rose.

CPI Inflation: Overall Versus Energy (3-month moving average)



The other news in the report was that core inflation fell from 4.1 percent (year over year) to 4.0 percent (year over year). In the case of core CPI inflation (orange), short-run movements are all about changes in shelter inflation (blue), especially in 2023. This is shown in the graph below. Specifically, in October shelter inflation was 3.2 percent (annual rate), down from 7.2 percent in September.

CPI Inflation: Core Versus Shelter (3-month moving average)



Core inflation is an important concept because it is the best current predictor of the trend rate of inflation overall. Making progress in getting the core rate to 2 percent is fundamentally about getting shelter inflation to lower levels.