

ECONOMIC NEWS

United States: Inflation Continues to Cool

By Francis Généreux, Principal Economist

HIGHLIGHTS

- ▶ The US Consumer Price Index (CPI) increased just 0.1% in November after rising 0.4% in both September and October.
- ▶ Energy prices fell 1.6%, driven by a 2.0% drop in the gasoline index and a 3.5% dip in natural gas. Food prices rose 0.5%, the smallest monthly increase since December 2021.
- ▶ The index for all items less food and energy was up 0.2%, the smallest monthly advance since August 2021. It follows gains of 0.3% in October and 0.6% in September and August.
- ▶ The 12-month change in the all items index continued to move lower, posting its smallest increase this year. It was up 7.1% in November, down from 7.7% in October. The 12-month change in the all items less food and energy index also slowed, from 6.3% to 6.0%.

COMMENTS

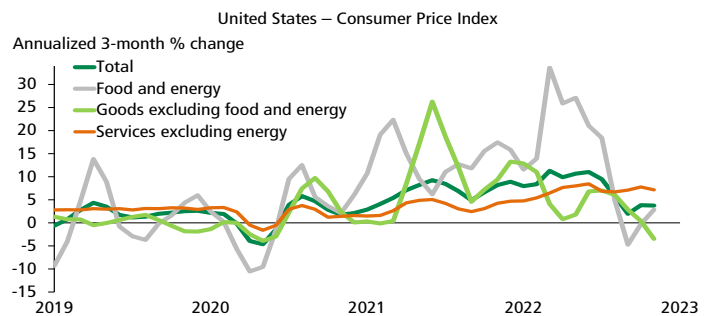
Consumer price data came in below the consensus forecast for the second straight month. After repeatedly surprising to the upside, inflation is now falling faster than expected. This is obviously a relief for American households, which have been contending with a spike in the cost of living since early 2021.

At 7.1%, inflation is still too high. It's more than triple the Federal Reserve's (Fed) target. But the tide has definitely turned, especially when it comes to goods prices. Prices for goods excluding food and energy were lower for the second month in a row in November. Prices were down sharply for used cars and trucks (-2.9%), computer equipment (-1.8%), toys (-1.4%), audiovisual equipment (-1.2%) and furniture (-0.8%). It's the first time since February 2021 that the annualized three-month change in core goods prices has been negative. That figure was over 25% in mid-2021.

But prices for services excluding energy are proving stickier. They were up 0.4% (the slowest pace since July), and their annualized three-month change remains north of 7.0%. This reflects

GRAPH

Goods prices are now falling, and inflation is largely driven by services



Sources: U.S. Census Bureau and Desjardins Economic Studies

consumers' post-pandemic service splurge after buying up goods during lockdown. But the economy and wage growth will likely have to slow further before services inflation cools enough to satisfy the Fed.

IMPLICATIONS

Inflation is letting up in the United States. In November, it was two percentage points below its June peak. But while things are moving in the right direction, it's probably too soon for the Fed to end its monetary tightening campaign. It could start slowing the pace of rate hikes as early as tomorrow's meeting, however.