Economic Update

December 11, 2024

CPI Inflation Matches PNC's Expectations at +0.3% for November 2024, Up to +2.7% Versus One Year Ago

- **Core CPI, less Food & Energy, rose 0.3% in November 2024, maintaining a stubbornly-high annualized pace above 3.5%**
- **Topline CPI rose by 0.3% in November 2024 in seasonally-adjusted terms, matching PNC's expectations**
- **Housing inflation maintained its upward pressure on inflation, decelerating only modestly in November 2024 to a 4.2% annualized pace**
- **Transportation, Food & Beverages, and Energy components all contributed to November 2024's persistence in CPI inflation**

Consumer Price Index (CPI) inflation came in at PNC's expectations for November 2024 for both the Core measure and the topline result. Core CPI inflation, which mirrors the metric that the Federal Reserve targets in its monetary policy impact goals (the Core Personal Consumption Expenditures Deflator), rose by 0.3% for the month – its fourth consecutive month of gains at that pace. Not excluding these critical household expenditures, the topline measure also rose by 0.3% in November as Energy prices posted their first monthly gain since July 2024.

The +0.3% Core CPI gain in November 2024, which excludes volatile food and energy inputs, leaves this indicator of Fed monetary policy direction stalled at a +3.3% year-over-year pace of gain. Responsibility for this stall has been widely attributed to the lag in housing costs' influence on the overall basket of goods and services purchased by consumers each month. Indeed, growth in the CPI report's Services less Shelter component saw growth decelerate to a 1.5% annualized growth rate in November – below the Federal Reserve's 2.0% target. Rising housing costs will remain a burden to households' balance sheets but their influence on Federal Reserve monetary policy looking ahead should be kept in context, allowing further rate cuts in 2025 as inflation should continue to ease slowly but steadily in the coming year.

The Bureau of Economic Analysis reported on Tuesday, December 10, that labor costs had been revised to a slower growth pace in the third quarter of this year. The upshot of this revision is that upward pressure on inflation through consumer demand may be less of a threat in the coming months than had previously been assumed. Earlier estimates supported the narrative that wage growth outpacing consumer price growth threatened to push inflation higher in the months ahead – or at least further delay a return to a sustained 2.0% average pace of inflation. Given that wage growth on aggregate since the end of the COVID-19 Pandemic has largely caught up to aggregate price growth over that period, slower wage growth can now be viewed as a

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good development for the sustainability of overall economic growth as well as with respect to the potential to pressure inflation from the demand side.

Energy inflation saw a modest bounce in November 2024's CPI report. Energy CPI grew at a 0.2% pace for the month, which translates to a 2.4% annualized gain. But November was the first month since July that Energy CPI posted an increase, and the index is still down 3.2% versus one year ago. With oil prices remaining range bound around $70 per barrel (West Texas Intermediate), there appears to be little risk that oil-based inflation is a threat from upstream. This lack of pressure on prices either through manufacturing of goods or transportation couples with the potential for easing labor cost pressure entering the new year to support calls that overall CPI inflation is on a sustainable path back to 2% and that continued moves to lower interest rates now will be well-timed to enable a re-acceleration in overall economic growth through 2025.

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