

# Making Sense

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## October's Consumer Price Index:

### Inflation Falls Below 8% for the First Time Since February

#### In Brief:

#### Takeaways from October's consumer price index

- Headline inflation (year-over-year) was 7.7% (down from 8.2% in September)
- Core inflation (excludes food and energy) also decreased to 6.3% year-over-year from 6.6% last month

#### What does it mean for you?

- Consumer inflation, while improving, is still too high
- Market volatility will most likely continue
- The Federal Reserve will likely keep monetary policy tight

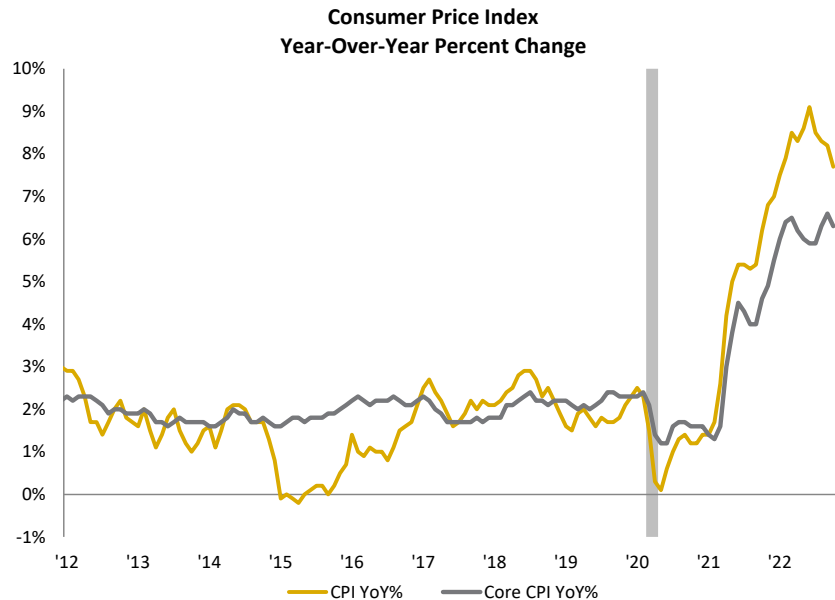
#### What to watch:

- The Federal Reserve makes its final 2022 rate decision on December 14<sup>th</sup>, along with providing quarterly economic projections

Today's CPI report showed inflation moderating more quickly than the market expected. Month-over-month headline inflation rose 0.4% in October, bringing year-over-year inflation down to 7.7% from 8.2% in September. Consensus expected a 7.9% inflation rate. Possibly more importantly, core CPI (excludes food and energy) slowed to a monthly rate of 0.3%, bringing the annual rate down to 6.3% (consensus expected 6.5%). **This report is welcome news, but if we step back, the rate of inflation remains far too elevated. While this opens the door for the Fed to slow its pace of hikes (potentially a 0.5% hike at the December meeting), we believe the Federal Reserve will keep monetary policy tight until inflation is clearly in a persistent, sustained downtrend.**

In the details of the report, owners' equivalent rent slowed month-on-month to 0.6% from 0.8%. Used car prices fell (-2.4%) for the fourth consecutive month, and apparel and medical care fell 0.7% and 0.5%, respectively. Airfares fell 1.1%, while unfortunately, gasoline prices rose 4.0%.

Figure 1: Inflation Moderated in October



Source: BLS, Strategas Research

### The Fed's Monetary Policy Path

As the Federal Reserve members prepare for their final meeting of 2022, controlling inflation will likely continue to drive policy decisions. This report certainly gives the Fed bandwidth to slow the pace of hikes, possibly to 0.5% in their December meeting. That said, the next CPI report is released the day before the Fed's interest rate decision on December 14<sup>th</sup>, and a lot can change in a month.



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