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# US inflation – progress stalls

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Dr. Christoph Balz <sup>AC</sup>

Bernd Weidensteiner <sup>AC</sup>

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**US consumer prices rose by 0.2% in October from September, and by 0.3% excluding energy and food. This was in line with expectations in both cases. However, it is becoming apparent that inflationary pressure is only declining very slowly. The data do not argue against further policy easing by the Federal Reserve, but they could support those who want to slow the pace of the rate cuts. We continue to expect a 25 basis point cut at the next meeting in December.**

## The data...

US consumer prices rose 0.2% in October from the previous month. The year-on-year rate rose from 2.4% to 2.6%. The more important core rate, which excludes the volatile prices of energy and food, was 0.3% month-on-month. The year-on-year rate remained at 3.3%. The data were in line with expectations.

## ... and the background

The US consumer price data for October is not disastrous, but it does not show any clear progress either. This applies in particular to the core rate, i.e. the inflation rate excluding volatile energy and food prices, which provides a better indication of the trend. Here, the month-on-month rate was 0.3% (the overall rate was only 0.2% due to falling gasoline prices). This was the same as in August and September and too high given the Fed's inflation target.

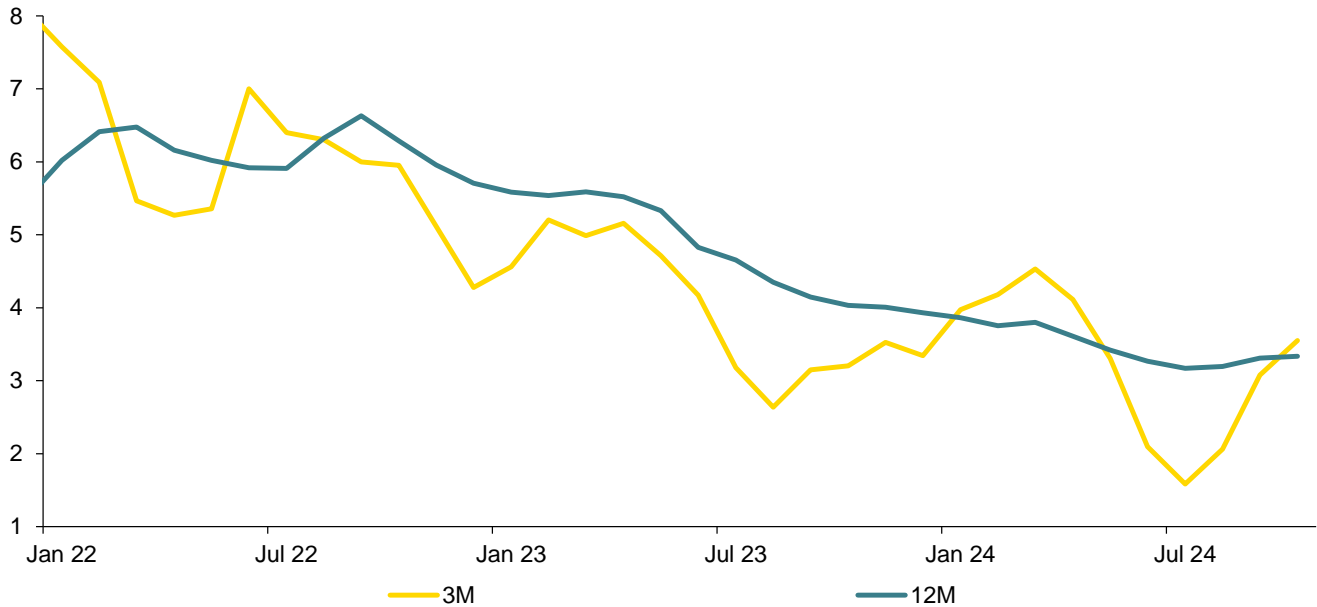
In fact, consumer prices excluding energy and food rose at an annualized rate of 3.6% in the last three months, which means that momentum picked up again. However, there have been several such phases in the past. These proved to be only temporary and the year-on-year rate therefore tended to fall further (Chart 1). We would therefore not yet proclaim the end of the downward trend in inflation this time either. However, it remains to be seen whether the situation will ease again this time. In any case, the figures support our assessment that US inflation will remain above the central bank's target over the longer term. This applies even more in light of the emerging policy of the future president, Trump, who is relying heavily on tariffs and reduced immigration which would lead to a tightening of the labor market.

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**Chart 1 - Momentum has picked up**

consumer price index excluding food and energy, 3- and 12-month changes, annual rate in %



Source: S&P Global, Commerzbank Research

**Fed: a further rate cut in December, but then ...**

While inflation is certainly no longer at a worryingly high level, it has not shown any signs of declining in recent months. This applies particularly to the core rate; for the past six months, it has been moving in a narrow corridor between 3.2% and 3.4% year-on-year. For the Fed, this means that underlying inflation remains too high. A further rate cut at the December FOMC meeting seems likely in order to avoid jeopardizing the Fed’s full employment target. That said, those in favor of a more cautious approach to interest rate cuts are likely to gain support. The risk is increasing that the Fed will skip a meeting at the beginning of 2025 and will not lower interest rates at that time. However, it is still too early for a final judgment. The Fed will also wait for further data before taking action.



## Analysts

**Dr. Christoph Balz** <sup>AC</sup>  
Senior Economist  
+49 69 9353 45592  
christoph.balz@commerzbank.com

**Bernd Weidensteiner** <sup>AC</sup>  
Senior Economist  
+49 69 9353 45625  
bernd.weidensteiner@commerzbank.com

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#### Commerzbank Offices

##### Frankfurt

Commerzbank AG  
DLZ - Gebäude 2,  
Händlerhaus  
Mainzer Landstraße 153  
60327 Frankfurt  
Tel: + 49 69 136 21200

##### London

Commerzbank AG  
PO BOX 52715  
30 Gresham Street  
London, EC2P 2XY  
Tel: + 44 207 623 8000

##### New York

Commerz Markets LLC  
225 Liberty Street, 32nd  
floor,  
New York,  
NY 10281-1050  
Tel: + 1 212 703 4000

##### Singapore

Commerzbank AG  
128 Beach Road  
#17-01 Guoco Midtown  
Singapore 189773  
Tel: +65 631 10000