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Economic Briefing

US inflation decline stalls

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US consumer prices rose 0.3% in November from October, both overall and excluding energy and food. This marks a halt in the downward trend of inflation. The data increases the likelihood that the Federal Reserve will soon slow the pace of interest rate cuts.

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The data

US consumer prices rose by 0.3% in November from the previous month. The year-on-year rate rose from 2.6% to 2.7%. The more important core rate, which excludes the volatile prices of energy and food, was 0.3% month-on-month. The year-on-year core rate remained at 3.3%. This was in line with consensus expectations but slightly above our forecast.

... and the background

The decline in US inflation has stalled. This applies particularly 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% for the fourth month in a row. In annualized terms, this corresponds to around 3½% and is far too high given the Fed's inflation target.

In contrast to the previous months, the price pressure in November resulted primarily from a price increases in goods, especially for new and used cars. It is possible that this is an outlier. By contrast, the upward pressure on prices for services has somewhat subsided. This applies above all to the important rents, which have risen much more slowly than before.

In the last three months, consumer prices excluding energy and food rose by 3.7% on an annualized basis, which means that momentum continued to pick up. While there have been several such phases in the past, they were only temporary and the downtrend in the year-on-year rate therefore resumed sooner or later (Chart 1). So today's data do not have to mean the end of the downward trend in inflation, especially since, as mentioned above, price pressure is tending to ease in the important services sector, and in particular in rents. However, it remains to be seen whether the situation eases again this time. In any case, the figures support our view that US inflation will not fall to the central bank's target of 2% on a lasting basis.

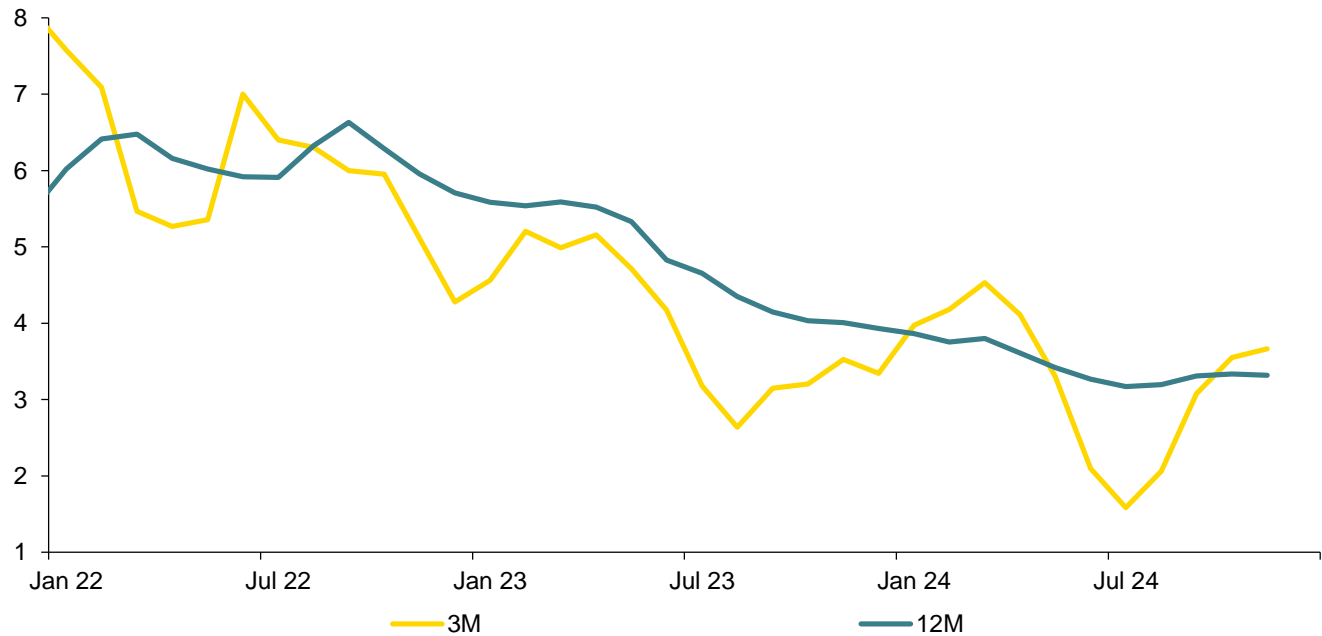


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Chart 1 - Momentum has picked up

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



Source: S&P Global, Commerzbank Research

A pause in interest rate cuts would actually be appropriate

The fact that a 25 bp rate cut next week is firmly expected by market participants is probably the most important reason for the Fed to deliver it. After all, they don't normally want to surprise the market. However, today's price data was only the last data point in a whole series that rather suggests a pause in interest rates. Growth was probably also quite strong in the fourth quarter, and the labor market is not yet showing any major signs of weakness (and wage growth is probably still too high for the Fed's liking). Added to this are the plans of the future Trump administration, which - like the announced tariff increases - also might drive up inflation. This comes at a time when the decline in inflation has stalled anyway. The Fed's assessment that its policy is still fairly restrictive should be questioned. We therefore see an increasing risk that the Fed will pause with rate cutting at the beginning of 2025.



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