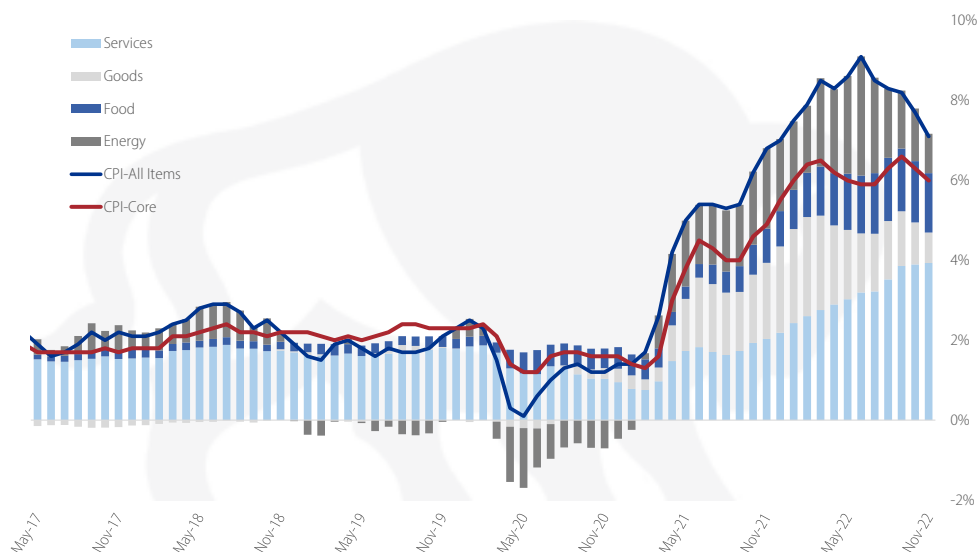


Inflation Retreats

November's consumer price index shows the Fed is making significant progress in its war on inflation. Headline CPI rose just +0.1% during November while the core rate (ex food and energy) rose +0.2%. Both figures came in below the median estimate for gains of +0.3% on each.

Year-over-year increases declined to +7.1% for the headline and +6.0% for the core. While those figures remain well above anything resembling stable prices, they are moving in the right direction after peaking at +9.1% and +6.6% respectively a few short months ago.

Consumer Price Index (Year-over-Year Percent Change)



Source: Bureau of Labor Statistics

Notably, the recent trend is even more encouraging. Over the first six months of this year, the monthly increase in headline inflation averaged +0.9%, implying an annual rate of almost 11%. But over the last five months, the average has fallen to +0.2%, implying a much more palatable +2.4% annual rate.

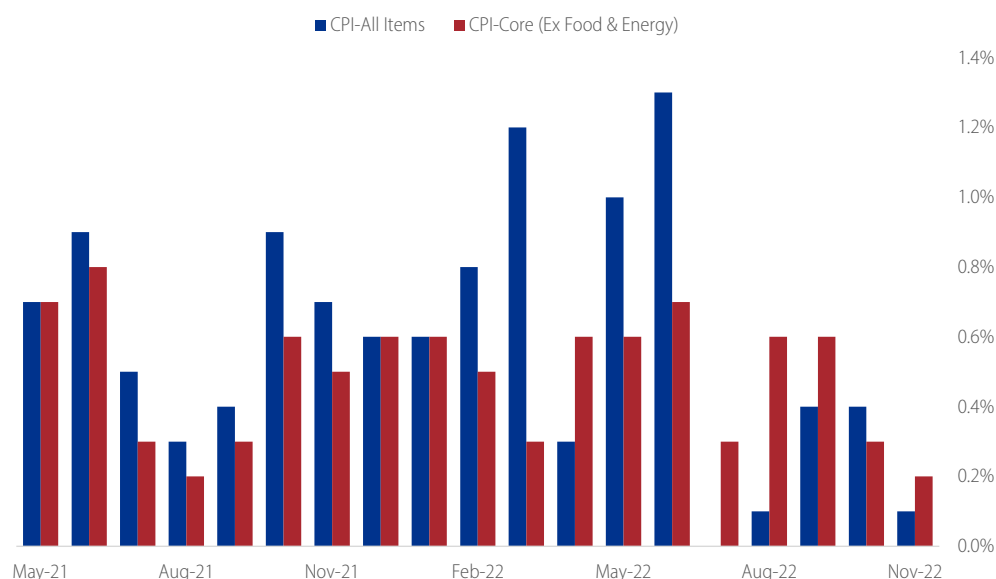
A similar analysis on the core CPI shows monthly gains of +0.6% in the first half of 2022 but a softer +0.4% trend thus far in the second half of the year which would put the annual rate on the core below 5%. The inflation dragon hasn't been slayed yet, but he's limping away wounded.

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November's consumer price index shows the Fed is making significant progress in its war on inflation.

Consumer Price Index (Month-over-Month Percent Change)



Source: Bureau of Labor Statistics

Details within the report were somewhat mixed. Goods prices retreated -0.5%, reflecting improvements in supply chain snarls and the shift towards spending on services. Within the goods category, used car prices fell for a fifth straight month and are now down -3.3% over the last 12 months. New car prices are still up +7.2% in the last year, but were unchanged during November.

On the services side, the +0.4% increase was led by shelter costs, which rose +0.6%. A -0.7% decline in medical care services offset some of that shelter gain. The persistent increases in shelter costs would be concerning, but more timely indicators suggest shelter costs should start coming down in the months ahead. Food inflation remains a problem, logging a +0.5% monthly gain and now up 12% over the last 12 months. Fortunately, lower energy costs, which fell -1.6% during November, mitigated some of that strain.

All in all, the November CPI report was good news as it shows the Fed's aggressive tightening of monetary policy is having the desired effect. Today's report should cement expectations for a 50 basis point hike at tomorrow's FOMC meeting and it puts the odds on favorite for the next meeting on February 1st at 25 basis points.

Financial markets are cheering with both stocks and bonds staging big rallies on the belief that the Fed is almost done with its hiking campaign. Markets are already starting to price-in cuts in the fed funds rate in the second half of next year. That strikes us as premature, so we'll all be watching Chair Powell very closely tomorrow to see if he offers any hints as to what the committee is thinking about a pivot to rate cuts next year.

Notably, the recent trend is even more encouraging. Over the first six months of this year, the monthly increase in headline inflation averaged +0.9%, implying an annual rate of almost 11%. But over the last five months, the average has fallen to +0.2%, implying a much more palatable +2.4% annual rate.

Today's report should cement expectations for a 50 basis point hike at tomorrow's FOMC meeting and it puts the odds on favorite for the next meeting on February 1st at 25 basis points.

Market Indications as of 9:12 A.M. Central Time

DOW	Up 443 to 34,448 (HIGH: 36,800)
NASDAQ	Up 349 to 11,492 (HIGH: 16,057)
S&P 500	Up 109 to 4,099 (HIGH: 4,797)
1-Yr T-bill	current yield 4.60%; opening yield 4.68%
2-Yr T-note	current yield 4.17%; opening yield 4.38%
3-Yr T-note	current yield 4.89%; opening yield 4.09%
5-Yr T-note	current yield 3.59%; opening yield 3.78%
10-Yr T-note	current yield 3.44%; opening yield 3.60%
30-Yr T-bond	current yield 3.47%; opening yield 3.57%

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