Stubborn Shelter Costs Keep CPI Elevated

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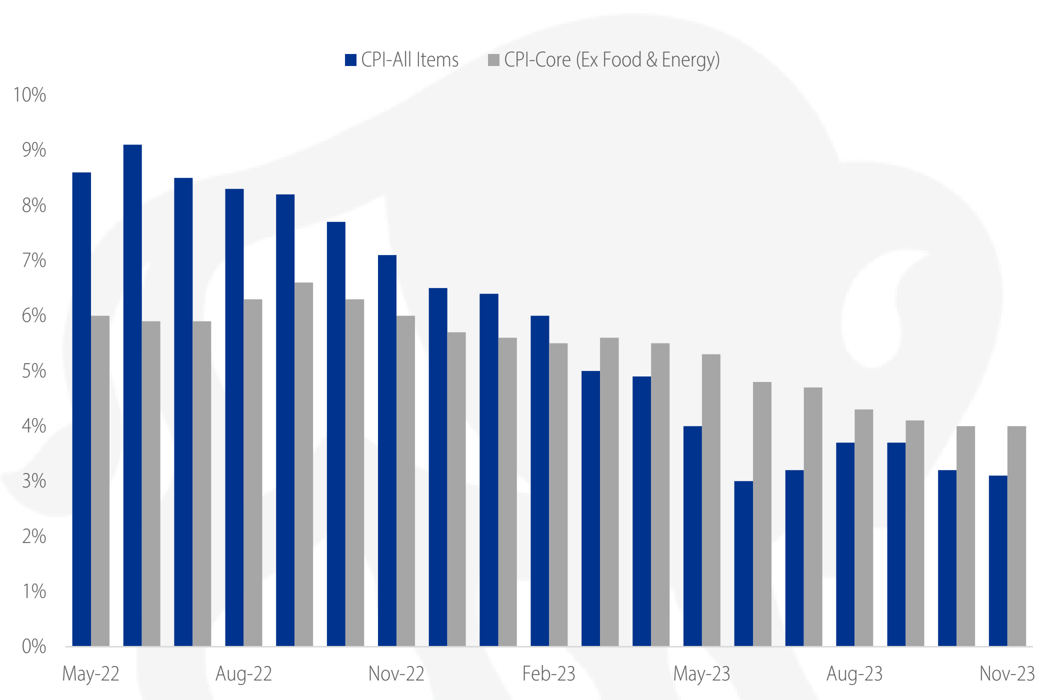
There were few surprises in the November Consumer Price Index (CPI), although stubbornly high housing costs continue to frustrate Fed efforts to wring out remaining price pressure. Overall CPI rose +0.1% last month after an unchanged reading in October. Within the headline, gasoline prices fell -6.0% last month and -8.9% year-over-year.

The unfortunate counterbalance to the drop in pump prices was a +0.4% increase in shelter costs. Within the shelter index, both the rent and owner's equivalent rent subindexes climbed +0.5%, while the *lodging away from home* subindex fell -0.9%. On an annual basis, housing costs are up +6.5%. This single component makes up roughly 70% of the service price index and is the key to driving core inflation down to the Fed's +2.0% target.

Core CPI, which excludes the volatile food and energy categories, climbed +0.3% in November following a +0.2% rise the previous month. On a year-over-year basis, core CPI was up +4.0% for the second straight month. The so called "supercore" CPI, which includes core services minus housing, climbed +0.44% during the month and +3.9% for the year. This closely-watched measure appears to be *accelerating*, although one month doesn't make a trend.

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



Source: Bureau of Labor Statistics

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Food prices increased by +0.2% in November and +2.9% over the year. However, there was a clear differentiation between the cost of eating out and the cost of buying groceries. The *food away from home* index rose +0.4% and +5.3% (yoy), while *food at home* increased by just +0.1% and +1.7% (yoy).

The fact that annual core inflation remains double the Fed's target, supercore CPI ticked up, and housing costs remain sticky all suggest that expectations for a March or even May rate cut are premature.

Apparel prices were down -1.3% last month. This was the biggest decline since May 2020 and reflected ample clothing inventories and early holiday discounting. New car prices fell -0.1% for the second straight month and are now up +1.3% since last year, while used car prices rose +1.6% last month, and are -3.8% lower than last year.

The bond market has jumped around quite a bit in early trading, but is currently selling off all along the curve. (Yield slightly higher.) Although the CPI report was essentially on target, there were a couple of data points that are likely to concern Fed members. The fact that annual core inflation remains double the Fed's target, supercore CPI ticked up, and housing costs remain sticky all suggest that expectations for a March or even May rate cut are premature.

Market Indications as of 8:55 A.M. Central Time

DOW	Up 7 to 36,412 (HIGH: 36,800)
NASDAQ	Down -14 to 14,419 (HIGH: 15,871)
S&P 500	Down -12 to 4,611 (HIGH: 4,797)
1-Yr T-bill	current yield 5.13%; opening yield 5.11%
2-Yr T-note	current yield 4.73%; opening yield 4.71%
3-Yr T-note	current yield 4.44%; opening yield 4.43%
5-Yr T-note	current yield 4.25%; opening yield 4.25%
10-Yr T-note	current yield 4.24%; opening yield 4.24%
30-Yr T-bond	current yield 4.34%; opening yield 4.33%