Consumer Inflation Drops in Admittedly Messy CPI Release

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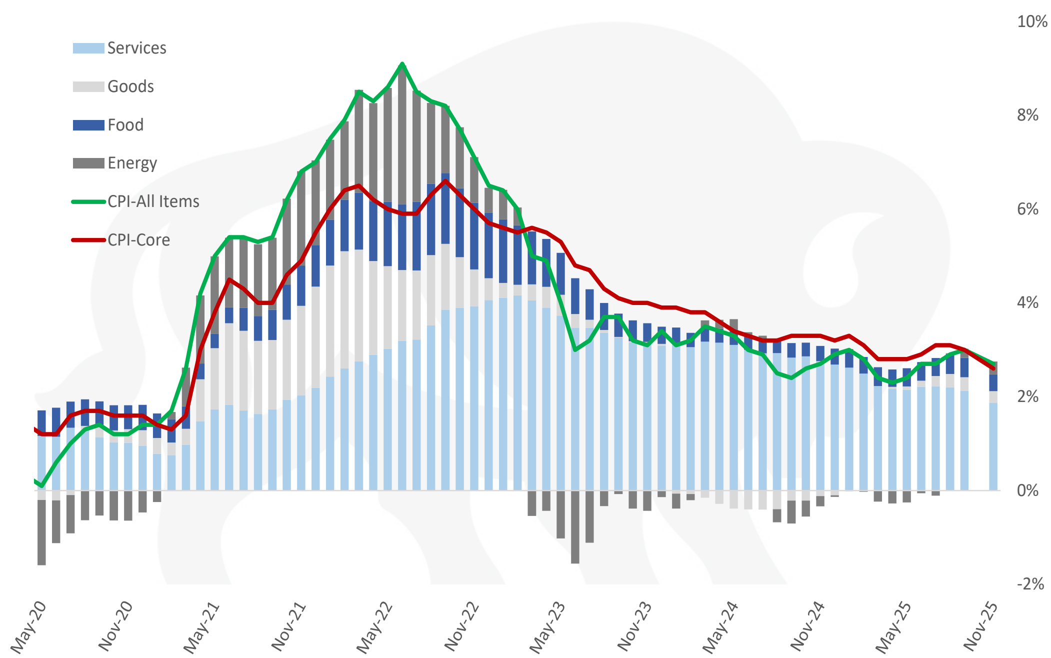
The impact of the 43-day government shutdown was evident in a surprisingly benign CPI release this morning as November consumer inflation came in well below forecasts. Because the Bureau of Labor Statistics (BLS) was shuttered in October, price data was never collected. As a result, this morning's November report only included year-over-year change. The annual pace of headline CPI, *expected to rise slightly in November,* unexpectedly retreated from +3.0% in September to +2.7%, matching a five-month low. Core CPI performed a similar about-face, falling from +3.0% in September to +2.6%, the lowest since March 2021.

These curiously cool inflation measures were well below expectations. The lowest forecast of core CPI in a Bloomberg survey of 62 economists was +2.8%, 0.2 percentage points above the actual number.

Concerns that tariffs would increase consumer prices as the holiday season approached appear overblown. Core goods prices added just 0.3 percentage points to core CPI while core services, which include housing, transportation and medical care, added 2.3 percent. Shelter costs, which represent approximately 35% of the overall CPI and roughly 45% of the core, climbed just +0.18% from September, *the lowest two-month change since the pandemic shutdown in April-May 2020* and an abrupt decline from the +0.64% two-month change back in September.

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



Source: Bureau of Labor Statistics

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Market experts have cautioned for months that the disruption in government data collection would distort the numbers and make analysis difficult for several months. Some of the larger price declines, including drops in airfare and lodging away from home could reverse themselves post-shutdown. Although there's a tendency to discount this morning's report, the fact that the decline in shelter costs is accelerating while goods prices remain largely in check suggests Fed policy remains restrictive even after the December rate cut.

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The Fed will see December CPI long before the next FOMC meeting in late January, so today's release will be less impactful as the weeks progress. The bond market is rallying in early trading, sending yields lower across the curve, while major stock indexes are higher following a four-day slump.

Market Indications as of 9:36 A.M. Central Time

DOW	Up 368 to 48,253 (HIGH: 48,704)
NASDAQ	Up 402 to 23,095 (HIGH: 23,958)
S&P 500	Up 52 to 6,773 (HIGH: 6,901)
1-Yr T-bill	current yield 3.48%; opening yield 3.48%
2-Yr T-note	current yield 3.45%; opening yield 3.47%
3-Yr T-note	current yield 3.49%; opening yield 3.51%
5-Yr T-note	current yield 3.65%; opening yield 3.69%
10-Yr T-note	current yield 4.11%; opening yield 4.14%
30-Yr T-bond	current yield 4.80%; opening yield 4.82%