

US Daily: November CPI Preview (Abecasis/Hill)

- We expect a 0.27% increase in November core CPI (vs. 0.3% consensus), corresponding to a year-over-year rate of 3.99% (vs. 4.0% consensus). We expect a 0.03% increase in November headline CPI (vs. flat consensus), which corresponds to a year-over-year rate of 3.06% (vs. 3.1% consensus). Our forecast is consistent with a 0.37% increase in CPI core services excluding rent and owners' equivalent rent and with a 0.16% increase in core PCE in November. We will update our core PCE forecast after the CPI and PPI are released.
- We highlight three key component-level trends we expect to see in this month's report. First, we expect used car prices to decline by 0.9% and new car prices to decline by 0.3%, reflecting rebounding promotional incentives and declining used car auction prices in November. Second, we expect airfares to increase by 4% this month, reflecting a seasonally adjusted increase in our airline team's real-time measure of airfares ahead of the holidays. Third, we expect shelter inflation to run at a similar pace to last month's (we forecast rent to increase by 0.46% and OER to increase by 0.42%), as the gap between rents for new and continuing leases continues to close and the OER-rent gap normalizes after last month's decline.
- Going forward, we expect monthly core CPI inflation to remain around 0.3% in the next three months. We see further disinflation in the pipeline in 2024 from rebalancing in the auto, housing rental, and labor markets, though we expect a small offset from a delayed acceleration in healthcare. We forecast year-over-year core CPI inflation of 2.7% in December 2024.

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November CPI Preview

We expect a 0.27% increase in November core CPI (vs. 0.3% consensus), corresponding to a year-over-year rate of 3.99% (vs. 4.0% consensus). We expect a 0.03% increase in November headline CPI (vs. flat consensus), reflecting higher food (+0.3%) and lower energy (-3.2%) prices. This corresponds to a year-over-year rate of 3.06% (vs. 3.1% consensus). Our forecast is consistent with a 0.37% increase in core services excluding rent and owners' equivalent rent in November. Exhibit 1 provides a component-level summary of our forecast.

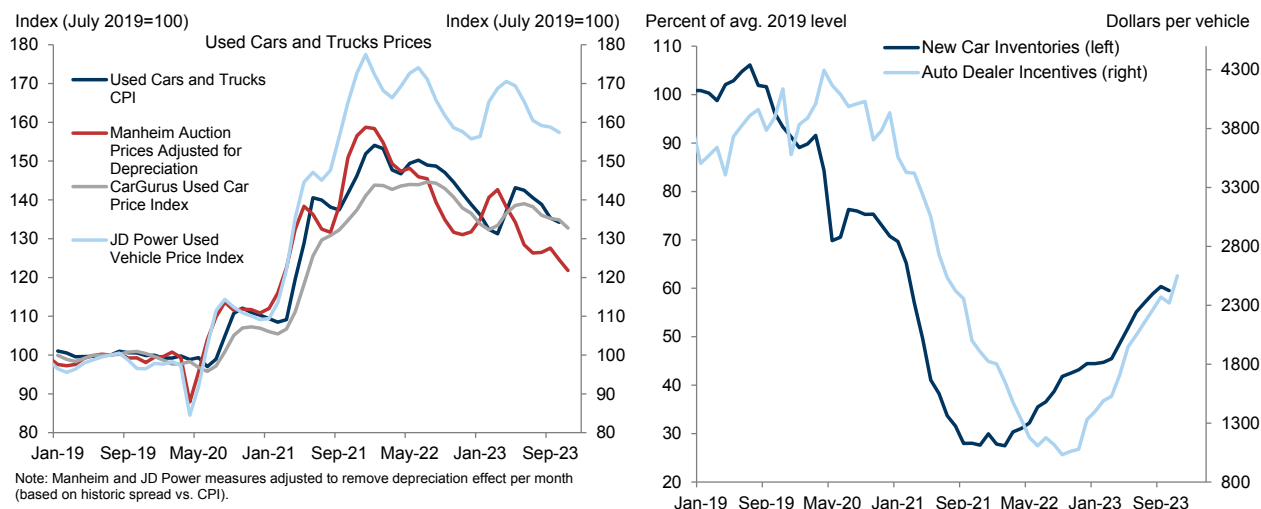
Exhibit 1: We Expect a 0.27% Increase in Core CPI in November

	Weight	Core CPI		
		3-Month Trend	October, MoM SA	November, MoM SA, GS Forecast
Core	100%	0.28%	0.23%	0.27%
Apparel	3%	-0.2%	0.1%	-0.5%
New cars	5%	0.2%	-0.1%	-0.3%
Used cars	3%	-1.5%	-0.8%	-0.9%
Motor vehicle parts	1%	-0.5%	-0.3%	-0.2%
Medical care commodities	2%	0.2%	0.4%	0.3%
Tobacco	1%	0.9%	1.9%	0.6%
Rent of primary residence	10%	0.49%	0.50%	0.46%
Lodging away from home	1%	-0.6%	-2.5%	-0.5%
Medical care services	8%	0.23%	0.32%	0.44%
Public transportation	1%	1.5%	0.0%	2.9%
Transportation services ex-public	7%	1.2%	0.8%	0.7%
Pets	1%	-0.1%	0.3%	0.4%
Recreation ex-pets	6%	0.1%	0.1%	0.2%
Education	3%	0.1%	0.0%	0.3%
Communication	4%	-0.2%	-0.3%	-0.2%
Household furnishings and ops.	5%	0.1%	-0.1%	0.0%
Personal care	3%	0.5%	0.4%	0.2%
Alcoholic beverages	1%	0.3%	0.2%	0.2%
Owners' equivalent rent	32%	0.45%	0.41%	0.42%
Residual (implicit)	3%			0.4%
Core Goods	26%	-0.19%	-0.09%	-0.17%
Core Services	74%	0.43%	0.34%	0.40%
Core Services Ex-Rent and OER	32%	0.40%	0.22%	0.37%
Implied NSA Headline Index Level	--	--	--	306.823

Source: Department of Labor, Goldman Sachs Global Investment Research

We highlight three key component-level trends for the November report:

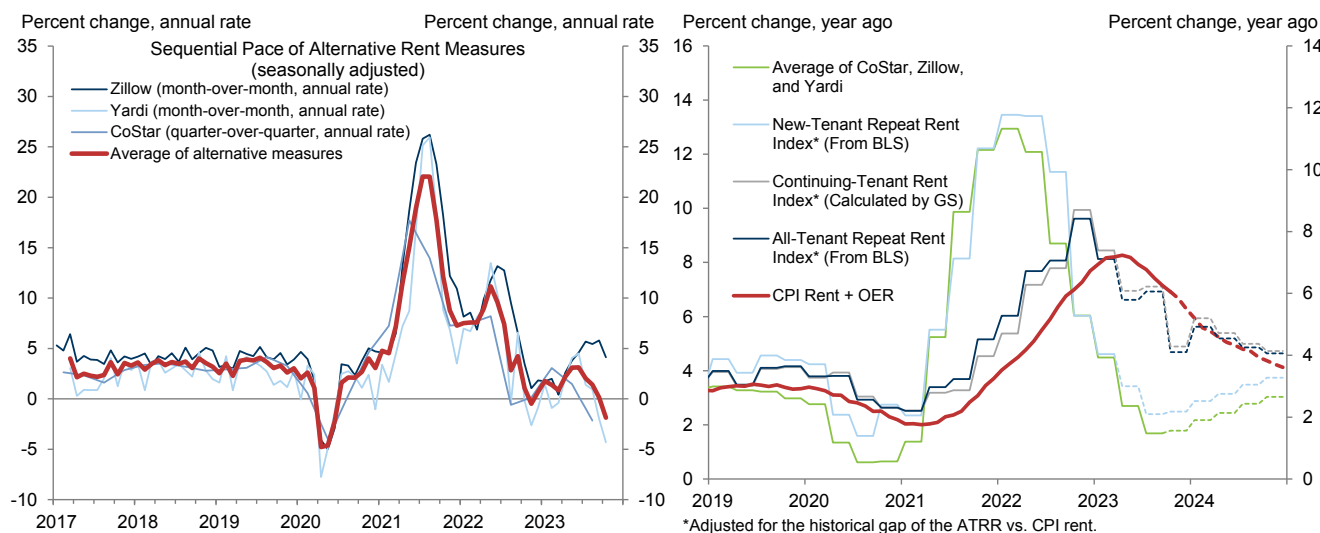
1. Car prices. We expect used car prices to decline 0.9%, reflecting lower used car auction prices. We also expect new car prices to decline 0.3%, as promotional dealer incentives more than caught up to their levels before the UAW strike. Looking ahead, we expect new and used car prices to decline by 1.7% and 5.5% respectively over the next year, reflecting normalizing auto production, higher inventories, and higher new vehicle incentives.

Exhibit 2: We Expect Used Car Prices to Decline 0.9% and New Car Prices to Decline 0.3% in November


Source: Department of Labor, Manheim, CarGurus, JD Power, Department of Commerce, Autodata, Goldman Sachs Global Investment Research

2. Airfares. We have observed a meaningful increase in our airline team's real-time measure of airfares on a seasonally adjusted basis ahead of the holidays. As a result, we expect the airfares component of the CPI to increase 4%, which would boost core CPI by around 3bp this month.

3. Shelter. We expect shelter inflation to run at a similar pace to last month's. We expect a narrowing gap between rents for new and existing tenants to lead to a modest deceleration in the pace of rent inflation, from 0.50% to 0.46%. We expect OER to increase at a similar pace to last month's (we forecast 0.42%), as the OER-rent gap normalizes following last month's decline.

Exhibit 3: We Expect CPI Shelter Inflation to Run at a Similar Pace to Last Month's, as Rent Growth Decelerates but the OER-Rent Gap Normalizes Following Last Month's Decline


Source: Zillow, Yardi, CoStar, Department of Labor, Goldman Sachs Global Investment Research

Elsewhere in the report, we expect apparel prices to decline 0.5%, reflecting an earlier start to holiday promotions and weakness in online prices indicated by Adobe's panel of

online retailers. We also expect car insurance inflation to decelerate to 1.1%, as premiums have nearly caught up to repair and replacement costs.

Our forecast is consistent with a 0.16% increase in core PCE in November (Exhibit 4). Core PCE is likely to increase by less than core CPI this month for three main reasons. First, rent and OER are likely to increase at a faster pace than overall core inflation, and these components have a smaller weight in core PCE than in core CPI. Second, the CPI's health insurance component is currently rising by 1% each month, and we don't expect a similar boost to core PCE because the BEA uses a different methodology to measure health insurance costs. Finally, the airfares component of the PCE price index is constructed using different source data from the CPI's, and we don't expect airfares to increase as much in the PCE measure as in the CPI measure. We will update our core PCE forecast after the CPI and PPI are released.

Exhibit 4: Our Core CPI Forecast Is Consistent with a 0.16% Increase in Core PCE in November

Category	CPI		PCE	
	Forecast (% chg, MoM)	Weight (%)	Forecast (% chg, MoM)	Weight (%)
Apparel	-0.50	3.20	-0.50	3.13
New cars	-0.30	5.31	-0.30	2.35
Used cars	-0.90	3.17	-0.90	1.47
Motor vehicle parts	-0.22	0.59	-0.09	0.74
Medical care commodities	0.30	1.84	0.30	3.96
Tobacco	0.60	0.64	0.60	0.71
Rent of primary residence	0.46	9.62	0.46	3.94
Lodging away from home	-0.50	1.40	-0.50	1.20
Medical care services	0.44	7.96	0.17	18.37
Public transportation	2.92	0.92	-0.53	1.67
Transportation services ex-public	0.72	6.68	0.54	2.09
Pets	0.40	0.69	0.35	0.67
Recreation ex-pets	0.20	5.87	-0.02	9.27
Education	0.30	2.91	0.31	2.04
Communication	-0.17	3.81	-0.17	1.88
Household furnishings and ops.	0.05	5.29	0.02	3.51
Personal care	0.20	3.16	0.17	2.24
Alcoholic beverages	0.15	1.05	0.16	2.31
Owners' equivalent rent	0.42	32.44	0.42	13.34
Financial services			0.32	8.06
Residual (implicit)	0.35	2.99	0.23	17.05
Core Goods	-0.17	26.3	-0.09	26.1
Core Services	0.40	73.7	0.24	73.9
Core Services Ex-Housing	0.37	31.7	0.19	56.6
Core	0.27	100.0	0.16	100.0

Source: Department of Commerce, Department of Labor, Goldman Sachs Global Investment Research

Going forward, we expect monthly core CPI inflation to remain around 0.3% in the next three months. We see further disinflation in the pipeline in 2024 from rebalancing in the auto, housing rental, and labor markets, though we expect a small offset from a delayed acceleration in healthcare. We forecast year-over-year core CPI inflation of 2.7% in December 2024.

Exhibit 5: We Forecast Year-on-Year Core CPI Inflation of 2.7% in December 2024

	Weight	Oct. 2023 YoY	GS Bottom-up CPI Forecast			
			Dec. 2023 YoY	Contribution to Change	Dec. 2024 YoY	Contribution to Change
Core CPI	100.0	4.0	3.9	-0.1	2.7	-1.3
Apparel	3.2	2.6	2.2	0.0	0.0	-0.1
New Cars	5.3	1.9	0.5	-0.1	-1.7	-0.2
Used Cars	3.2	-6.5	-5.6	0.0	-5.5	0.0
Medical Care Commodities	1.8	4.8	4.7	0.0	1.9	-0.1
Health Insurance	0.7	-34.0	-27.1	0.0	2.5	0.2
Medical Services ex Insurance	7.3	2.3	2.2	0.0	4.1	0.1
Pets	1.5	5.0	4.9	0.0	1.5	-0.1
Household Furnishings + Ops.	6.5	2.0	2.1	0.0	1.6	0.0
Personal Care	2.8	5.2	5.0	0.0	2.5	-0.1
Rent + OER	42.1	6.9	6.3	-0.3	4.1	-1.2
Public Transportation	0.9	-11.8	-12.4	0.0	3.6	0.1
Private Transportation Services	6.7	12.2	12.6	0.0	4.3	-0.5
Miscellaneous goods and services	18.0	5.5	5.0	-0.1	3.6	-0.3
Headline CPI	100.0	3.2	3.2	-0.1	2.4	-0.9
Core CPI	79.6	4.0	3.9	-0.1	2.7	-1.0
Food	13.4	3.3	2.3	-0.1	2.1	-0.2
Energy	7.0	-4.5	-2.7	0.1	-1.6	0.2

Source: Department of Labor, Goldman Sachs Global Investment Research

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