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U.S. consumer prices increase less than expected in October - Reuters News

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WASHINGTON, Nov 10 (Reuters) - U.S. consumer prices increased less than expected in October and underlying inflation appeared to have peaked, which would allow the Federal Reserve to dial back its hefty interest rate hikes.

The consumer price index rose 0.4% last month after climbing by the same margin in September, the Labor Department said on Thursday. Economists polled by Reuters had forecast the CPI would advance 0.6%. In the 12 months through October, the CPI increased 7.7% after rising 8.2% on the same basis in September.

It was the first time since February that the annual increase in the CPI was below 8%. The annual CPI peaked at 9.1% in June, which was the biggest advance since November 1981. Annual inflation is slowing as last year's big increases drop out of the calculation.

The Fed last week delivered a fourth consecutive 75-basis-point interest rate hike and said its fight to lower inflation to the U.S. central bank's 2% target would require borrowing costs to rise further. It, however, signaled it may be nearing an inflection point in what has become the fastest rate hiking cycle since the 1980s.

Though gasoline prices increased after three straight monthly declines, goods inflation is slowing as demand rotates back to labor-intensive services and fractured global supply chains recover. Retailers are also sitting on excess merchandise, forcing them to offer discounts to clear shelves.

Excluding the volatile food and energy components, the CPI increased 0.3% last month after gaining 0.6% in September. The so-called core CPI is being driven by surging rents as soaring mortgage rates price out prospective buyers.

But there are signs that rental inflation could soon moderate. The Zillow Observed Rent Index (ZORI), viewed by some economists as a good predictor of rental inflation, looks to have peaked in February on an annual basis. The divergence between the rent measures in the CPI, ZORI and other independent gauges is due to differences in rent growth for new tenants relative to the average increase for all tenants.

The core CPI increased 6.3% in the 12 months through October. The core CPI jumped 6.6% on a year-on-year basis in September.

The inflation boost from services is coming from wages amid tight labor market conditions. A second report from the Labor Department on Thursday showed the number of Americans filing new claims for unemployment benefits increased moderately last week.

Initial claims for state unemployment benefits rose 7,000 to a seasonally adjusted 225,000 for the week ended Nov. 5.

Economists had forecast 220,000 applications for the latest week. Though job growth is slowing, the labor market remains extremely tight. The government reported last week that nonfarm payrolls increased by 261,000 in October, the smallest gain since December 2020.

Employment growth has averaged 407,000 per month this year compared with 562,000 in 2021.

The unemployment rate rose to 3.7% from 3.5% in September. Still, there were 1.9 job openings for every unemployed person at the end of September.

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