

US Macroeconomics

December 12, 2023

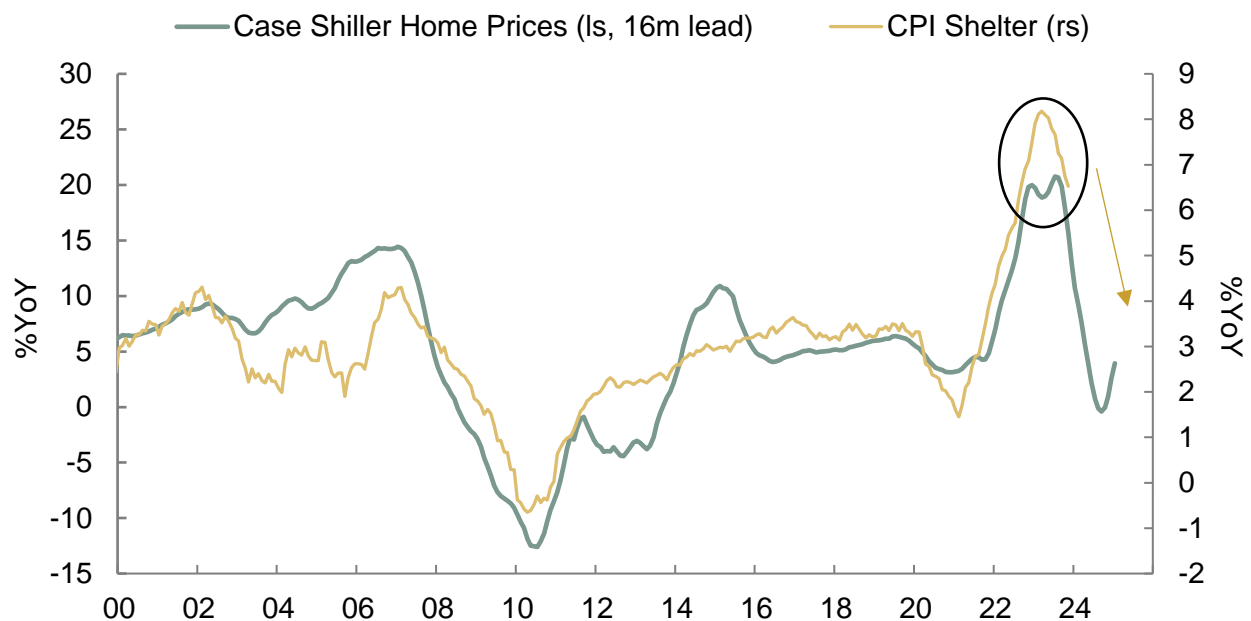
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Look to Housing as an Inflation Guide

November’s CPI report was hotter than expectations as key components — shelter, services, and the supercore — accelerated on a month-over-month and three month annualized rate of change basis. But we remain committed to our view of further disinflation and see the US economy close to price stability as early as next year.

The relevant factors include fertilizer prices driving food inflation lower, slowing personal income growth leading spending and core inflation lower (see our November 14 note), a *contracting* money supply, climbing inventory-to-sales ratios, supply chain pressures (NY Fed) returning to pre-Covid levels and China now exporting *deflation*. **The biggest disinflationary force however is housing (33% of CPI; 44% of core CPI).** We discuss below.

Mechanically, shelter costs tend to follow home prices with a 16-month lag (see chart below). **The trajectory of home prices implies that shelter inflation could cool to the high-2% to low-3% range between now and January 2025.** Census data also shows that record new home supply is coming online. Lastly, the CPI shelter series, *by design*, is a lagging indicator of actual housing costs. In inflationary environments the shelter component keeps the CPI reading artificially low, and in disinflationary periods keeps CPI readings artificially high. The US is in the latter camp, meaning that inflationary pressures are actually lower than what headline statistics suggest!



Sources: S&P, BLS, Haver, SMBC Nikko

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