

Daily Global Economic Review

January 11, 2024

ALL : CPI slows in second half of 2023, but shelter costs still high

Highlights

By Theresa Sheehan, Econoday Economist

The evidence in half-over-half percent changes in the December CPI report is that upward price pressures at the consumer level are easing back to the Federal Reserve's two percent inflation objective, and that the improvement is picking up some steam. On net the data point to inflation coming under control and that the long and variable lags in the transmission of monetary policy are more visible. However, it is not universal, and some pressures are in places that will tip the Fed's discussion away from consideration of cutting rates sooner rather than later primarily in shelter costs.

The all-items CPI rose 1.5 percent in the second half of 2023 compared to 1.8 percent in the first half and 3.0 percent in the second half of 2022. These compare with the near-term peak of 4.6 percent in the first half of 2022. For all-items, the pace is cooling toward the Fed's full year target and in aggregate rising normally.

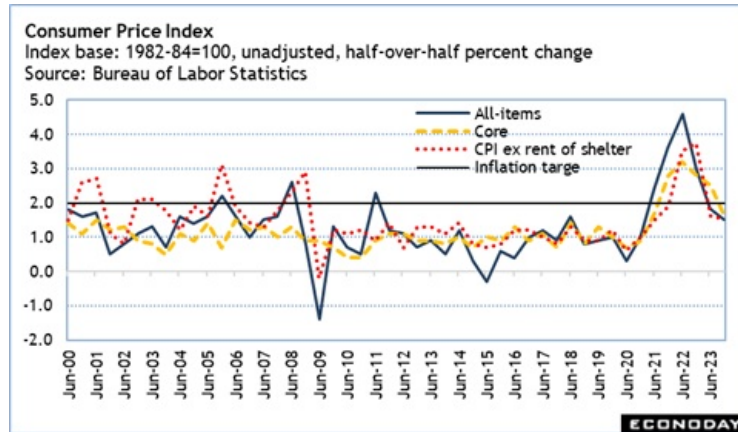
Further good news is that the core CPI rose 1.6 percent in the second half of 2023, a substantial improvement from 2.5 percent in the first half and below the near-term peak of 3.2 percent in the first half of 2022. Food prices rose a modest 1.1 percent in the second half of 2023 compared to up 2.5 percent in the first half, and well below the near-term peak of 5.2 percent in the second half of 2022. Energy prices increased 1.0 percent in the second half of 2023 compared to a fall of 5.9 percent in the first half of the year, and far below the near-term peak of 18.0 percent in the first half of 2022. The most volatile CPI components are behaving in line with non-crisis economic conditions.

However, shelter costs account for about 1/3 of the CPI basket and remain above the Fed's target. Shelter costs increased 2.7 percent in the second half of 2023 which is below 4.1 percent in the first half of 2023 and 3.8 percent in the second half of 2022. Why are shelter costs so high? Lack of resale supply is keeping prices of existing homes up and in turn is pushing home buyers to new homes which are generally more expensive than resales. Better incomes also mean more access to the housing market and more competition for housing stock.

Were it not for shelter costs, the picture for consumer price increases overall would be much milder. The CPI less shelter rose only 0.9 percent in the second half of 2023, although a bit faster than 0.7 percent in the first half, but nonetheless down from the near-term peak of up 5.5 percent in the first half of 2022. The CPI less food, energy, and shelter rose 0.8 percent in the second half of 2023 compared to 1.4 percent in the first half of the year, 2.1 percent in the second half of 2022, and 3.6 percent in the in the first half of 2022.

Fed policymakers talk about how stubborn inflation is for non-housing services. The special aggregate CPI for services excluding rents suggests that price increases in that subset of the CPI are stable and indicative that restrictive monetary policy has reached these components. In the second half of 2023, the CPI for services excluding rent rose 1.5 percent, little changed from 1.6 percent in the first half of the year, but substantially below the 3.8 and 3.5 percent in the second and first halves of 2022, respectively.

Consumer Price Index					
Half-over-half percent change, unadjusted					
Source: Bureau of Labor Statistics					
	H2-21	H1-22	H2-22	H1-23	H2-23
CPI all items	3.6%	4.6%	3.0%	1.8%	1.5%
CPI less food, energy	2.8%	3.2%	2.8%	2.5%	1.6%
CPI less shelter	4.2%	5.5%	2.6%	0.7%	0.9%
CPI less food, energy, shelter	3.3%	3.6%	2.1%	1.4%	0.8%
Food, beverages	3.4%	5.0%	5.2%	2.5%	1.1%
Energy	11.9%	18.0%	0.8%	-5.9%	1.0%
Gasoline	16.8%	25.8%	-5.6%	-8.9%	2.5%
Shelter	2.2%	2.8%	3.8%	4.1%	2.7%
Services	2.1%	3.1%	3.8%	3.0%	2.2%
Commodities	5.9%	6.8%	1.8%	0.1%	0.4%



ALL : Market Focus

Highlights

January 11, 2024

Italian industrial production for November is expected to repeat October's 0.2 percent monthly decline.

Consumer inflation in the US is expected to show a modest pickup to an annual rate of 3.2 percent in December from 3.1 percent in November despite lower gasoline and commodities prices, as it is seen rising 0.2 percent on the month after a 0.1 percent gain.

Excluding volatile factors of food and energy, the core CPI is forecast to ease slightly to a 0.2 percent increase on the month from a 0.3 percent rise, with the annual rate also seen slowing to 3.8 percent from 4.0 percent previously.

New jobless claims for the January 6 week are expected to come in at 209,000, up from 202,000 in the prior week.

Richmond Federal Reserve Bank President Thomas Barkin will speak before the Virginia Bankers Association 2024 Financial Forecast at 12:40 p.m. EST (1740 GMT).

In China, deflation is expected to ease in December. The year-over-year decline in consumer prices is forecast at 0.3 percent versus 0.5 percent in November while produce prices are seen down 2.6 percent on year after falling 3.0 percent. China's CPI last peaked in January 2023 at 2.1 percent.

The trade surplus is expected to widen to \$76.00 billion in December from \$68.39 billion in November.

United States : Market Reflections

Highlights

January 11, 2024

Equities recovered to end nearly flat Thursday after an initial decline on somewhat disappointing consumer price figures. The Dow Jones industrial average firmed 0.1 percent, the S&P 500 percent eased 0.1 percent, and the Nasdaq was flat. US Treasury yields and the dollar declined while oil prices rose.

News that consumer prices rose 3.4 percent in December from a year ago, above the 3.2 percent expected, spurred risk-off selling in equities and then more selling after two more Federal Reserve officials expressed caution about the inflation outlook and the prospect of rate cuts that markets have been expecting this year. A late decline in US Treasury yields helped equities recover from the initial selloff. Strong demand in the day's Treasury 30-year bond auction helped.

Among sectors, crypto-linked stocks had a good day on positive reaction to the Securities and Exchange Commission's approval of ETFs linked to Bitcoin. Most sectors were lower, paced by weakness in financials, real estate, health care, materials and industrials. A rebound in oil prices helped energy stocks outperform.

Italy : Industrial Production

Released On 01/11/2024 04:00 AM For Nov, 2023

	Prior	Consensus	Actual
Month over Month	-0.2 %	-0.2 %	-1.5 %
Year over Year	-1.1 %		-3.1 %

Highlights

Industrial production fell again in November and much more sharply than expected. A 1.5 percent drop was the worst performance since last April and some 1.3 percentage points steeper than the market consensus. Following an unrevised 0.2 percent dip in October, the latest decrease reduced annual workday adjusted growth from minus 1.1 percent to minus 3.1 percent and means that output has still not expanded since August.

To make matters worse, the monthly slide was broad-based. Energy (minus 4.0 percent) was particularly weak but there were hefty losses too in consumer goods and intermediates (both minus 1.8 percent). Capital goods were off 0.2 percent. Over the latest three months, total industrial production fell 0.8 percent.

Absent any revisions, the mid-quarter report leaves December needing an improbably large 3.4 percent monthly rise just to keep fourth quarter output flat. Accordingly, the sector almost certainly weighed on GDP growth, as it did in four of the last five quarters. Even so, with the Italian RPI at exactly zero and the RPI-P at 10, if anything overall economic activity has recently been a little firmer than expected.

Consensus Outlook

Production is expected to repeat October's 0.2 percent monthly decline.

United States : Jobless Claims

Released On 01/11/2024 08:30 AM For wk1/6, 2024

	Prior	Prior Revised	Consensus	Consensus Range	Actual
Initial Claims - Level	202 K	203 K	209 K	204 K to 215 K	202 K
Initial Claims - Change	-18 K	-17 K			-1 K
4-Week Moving Average	207.75 K	208.00 K			207.75 K

Highlights

Initial jobless claims are essentially unchanged with a 1,000 decrease to 202,000 in the January 6 week after a scant revision higher to 203,000 in the prior week. The level is slightly below the consensus of 209,000 in the Econoday survey of forecasters. The four-week moving average puts the level of claims also about unchanged in the January 6 week with a dip of 250 to 207,750. It is typical for unadjusted claims levels to spike in the first weeks of January as seasonal workers are laid off. In the January 6 week, unadjusted claims are up 47,632 to 317,048.

Insured jobless claims are down 34,000 in the December 30 week to 1.834 million. The four-week moving average is down 8,000 to 1.862 million for the week. Unadjusted insured claims jumped 202,792 in the December 30 week to 2.105 million. It is usual for the number of beneficiaries of unemployment benefits to rise in December as many businesses adjust payrolls before the new year or scale back activity during the winter months.

The insured rate of unemployment is down a tenth to 1.2 percent in the December 30 week. The rate has been hovering between 1.2 and 1.3 percent since the end of September. Unemployment among those eligible for benefits remains low and consistent with modest economic expansion and tight labor supply.

Consensus Outlook

Jobless claims for the January 6 week are expected to come in at 209,000 versus 202,000 in the prior week.

United States : CPI

Released On 01/11/2024 08:30 AM For Dec, 2023

	Prior	Consensus	Consensus Range	Actual
CPI - M/M	0.1 %	0.2 %	0.1 % to 0.3 %	0.3 %
CPI - Y/Y	3.1 %	3.2 %	3.0 % to 3.3 %	3.4 %
Ex-Food & Energy- M/M	0.3 %	0.2 %	0.2 % to 0.3 %	0.3 %
Ex-Food & Energy- Y/Y	4.0 %	3.8 %	3.8 % to 3.9 %	3.9 %

Highlights

Prices rose 0.3 percent in December from November, slightly above Econoday's consensus of 0.2 percent, and the 12-month inflation rate picked up to 3.4 percent from 3.1 percent, also above expected. Excluding food and energy, the CPI was up 0.3 percent on the month and 3.9 percent year-over-year which also topped expectations.

Shelter rose 0.5 percent on the month and contributed over half of the total increase (rents up 0.4 percent and the equivalent for homeowners up 0.5 percent). Pressure also came once again from both vehicle insurance, up 1.5 percent on the month, and

medical care, up 0.7 percent. Gains in recreation, personal care and education also contributed to higher monthly prices.

Energy, which had been in monthly contraction, rose 0.4 percent with food, where pressure has eased, up 0.2 percent for a second straight month.

There is plenty for the Federal Reserve to consider including half-year rates for 2023 which slowed to 1.5 percent overall in the second half of the year compared to 1.8 percent in the first half. In 2022, the half-year breakdown was 3.0 and 4.6 percent. But shelter costs do remain high, at 2.7 percent for the second half of 2023 yet below 4.1 percent in the first half and 3.8 percent in the second half of 2022.

Econoday's Relative Performance Index stands at 27 to confirm that recent US data are coming in stronger-than-expected, a trend that pushes back the need for a Federal Reserve rate cut. That being said, the slowdown in the core index 12-month rate to 3.9 percent from 4.0 percent, its lowest rate since May 2021, was a welcome development. The rate has been trending down since peaking at 6.6 percent in September 2022.

Consensus Outlook

Core prices in December are expected to rise a monthly 0.2 percent versus 0.3 percent in November. Overall prices are expected to also rise 0.2 percent after increasing 0.1 percent in November. Annual rates, at percent 3.1 percent overall and 4.0 percent for the core in November, are expected at 3.2 percent and 3.8 percent, respectively.

United States : EIA Natural Gas Report

Released On 01/11/2024 10:30 AM For wk1/5, 2024

	Prior	Actual
Week over Week	-14 bcf	-140 bcf

Highlights

Natural gas in storage declined 140 billion cubic feet to 3,336 BCF in the week ended Jan. 5 from 3,476 bcf in the week ended Dec. 29. For the latest week, natural gas in storage rose 436 bcf or 15.0 percent from 2,900 BCF in the year-ago week. Compared against the 5-year average of 2,988 bcf, natural gas stocks in the latest week were up 348 bcf or 11.6 percent.

United States : 10-Yr TIPS Announcement

Released On 01/11/2024 11:00 AM For 1/11/2024 4:00:00 PM

	Prior	Actual
Offering Amount	\$15.0 B	\$18.0 B
CUSIP Number	91282CHP9	91282CJY8
Auction Date	November 21, 2023	January 18, 2024
Issue [Settlement] Date	November 30, 2023	January 31, 2024
Maturity Date	July 15, 2033	January 15, 2034
Min Bid Amount	\$100	\$100
Noncompetitive Bids	12:00 Noon ET	12:00 Noon ET
Competitive Bids	1:00 p.m. ET	1:00 p.m. ET

United States : 20-Yr Bond Announcement

Released On 01/11/2024 11:00 AM For 1/11/2024 4:00:00 PM

	Prior	Actual
Offering Amount	\$13.0 B	\$13.0 B
CUSIP Number	912810TW8	912810TW8
Auction Date	December 20, 2023	January 17, 2024
Issue [Settlement] Date	January 2, 2024	January 31, 2024
Maturity Date	November 15, 2043	November 15, 2043
Min Bid Amount	\$100	\$100
Noncompetitive Bid	12:00 Noon ET	12:00 Noon ET
Competitive Bids	1:00 p.m. ET	1:00 p.m. ET

United States : 3-Month Bill Announcement

Released On 01/11/2024 11:00 AM For 1/11/2024 4:00:00 PM

	Prior	Actual
Offering Amount	\$75.0 B	\$75.0 B
CUSIP Number	912797HF7	912796CX5
Auction Date	January 8, 2024	January 16, 2024
Issue [Settlement] Date	January 11, 2024	January 18, 2024
Maturity Date	April 11, 2024	April 18, 2024
Min Bid Amount	\$100	\$100
Noncompetitive Bids	11:00 a.m. ET	11:00 a.m. ET
Competitive Bids	11:30 a.m. ET	11:30 a.m. ET

United States : 6-Month Bill Announcement

Released On 01/11/2024 11:00 AM For 1/11/2024 4:00:00 PM

	Prior	Actual
Offering Amount	\$68.0 B	\$68.0 B
CUSIP Number	912797GB7	912797JS7
Auction Date	January 8, 2024	January 16, 2024
Issue [Settlement] Date	January 11, 2024	January 18, 2024
Maturity Date	July 11, 2024	July 18, 2024
Min Bid Amount	\$100	\$100
Noncompetitive Bids	11:00 a.m. ET	11:00 a.m. ET
Competitive Bids	11:30 a.m. ET	11:30 a.m. ET

United States : 4-Week Bill Auction

Released On 01/11/2024 11:30 AM For 1/11/2024 4:30:00 PM

	Prior	Actual
Total Amount	\$80 B	\$80 B
Bid/Cover	2.96	2.78
4-Week Bill Rate	5.290%	5.280%

Highlights

At 2.78, coverage in the 4-week bill auction was lower midrange. The auction high interest rate came at 5.280 percent versus 5.290 percent last week and 5.325 percent two weeks ago. The auction amount was flat at \$80 billion for a seventh straight week, well down from \$95 billion in mid-November.

United States : 8-Week Bill Auction

Released On 01/11/2024 11:30 AM For 1/11/2024 4:30:00 PM

	Prior	Actual
Total Amount	\$80 B	\$80 B
Bid/Cover	2.80	2.98
8-Week Bill Rate	5.285%	5.275%

Highlights

At 2.98, the bid-cover ratio for the 8-week bill auction was at the top of its range. The high interest rate accepted in the weekly 8-week bill auction came in at 5.275 percent, down from 5.285 percent in the last two weeks. The offering size was flat at \$80 billion for an eighth straight week.

United States : Thomas Barkin Speaks

Highlights

Richmond Federal Reserve Bank President Thomas Barkin to speak before the Virginia Bankers Association 2024 Financial Forecast.

United States : 30-Yr Bond Auction

Released On 01/11/2024 13:00 PM For 1/11/2024 6:00:00 PM

	Prior	Actual
Total Amount	\$21 B	\$21 B
Coupon Rate	4.750%	4.750%
Bid/Cover	2.43	2.37
Yield Awarded	4.344%	4.229%
CUSIP Number	912810TV0	912810TV0
Originally Announced CUSIP	912810TV0	912810TV0

Highlights

Results for the monthly 30-year bond reopened auction show OK coverage at 2.37. Non-dealer bids accepted accounted for 85 percent of the total, indicating good demand from end investors. The high yield was awarded at 4.229 percent, down from 4.344 percent a month ago and from 4.769 percent two months ago.

United States : Treasury Statement

Released On 01/11/2024 14:00 PM For Dec, 2023

	Prior	Consensus	Consensus Range	Actual
Balance	\$-314.0 B	\$-128.0 B	\$-132.0 B to \$-90.0 B	\$-129.4 B

Highlights

The Treasury budget deficit rose to \$129.4 billion in December compared with expectations for a deficit centering on \$128.0 billion. This is up from a shortfall of \$85.0 billion in December 2022.

The latest monthly deficit reflected budget outlays at \$558.7 billion compared with \$539.9 billion in December of last year, while receipts at \$429.3 billion compared with \$454.9 billion last year.

Consensus Outlook

Expectations center on a deficit of \$128.0 billion for December versus a deficit of \$85.0 billion in December last year.

China : CPI

Released On 01/11/2024 20:30 PM For Dec, 2023

	Prior	Consensus
Month over Month	-0.5 %	
Year over Year	-0.5 %	-0.3 %

Consensus Outlook

After year-over-year contraction of 0.5 percent in November, December is expected to see consumer prices decrease 0.3 percent. China's CPI last peaked in January at 2.1 percent.

China : PPI

Released On 01/11/2024 20:30 PM For Dec, 2023

	Prior	Consensus
Month over Month	-0.3 %	
Year over Year	-3.0 %	-2.6 %

Consensus Outlook

Producer prices have been in long annual contraction. December's consensus is minus 2.6 percent on the year versus minus 3.0 percent in November.

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