

US inflation cools to 7.7%, Nasdaq jumps 6%

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US inflation cooled in October by more than forecast, offering hope that the fastest price increases in decades are ebbing and giving Federal Reserve officials room to slow down their steep interest-rate hikes.

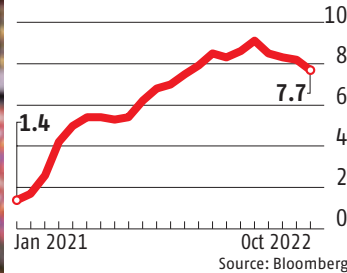
The consumer price index was up 7.7 per cent from a year earlier, the smallest annual advance since the start of the year and down from 8.2 per cent in September, according to a Labor Department report Thursday. Core prices, which exclude food and energy and are regarded as a better underlying indicator of inflation, advanced 6.3 per cent, pulling back from a 40-year high in the prior month.

The core consumer price index increased 0.3 per cent from the prior month, while the overall CPI advanced 0.4 per cent. Both increases as well as the monthly rises were below the median economist estimates.

While the deceleration in core prices is welcome news, inflation remains much too high



BETTER THAN ESTIMATES (YoY CPI change in %)



for comfort for the Fed. Chair Jerome Powell, who said earlier this month that officials need to see a consistent pattern of weaker monthly inflation, also indicated interest rates will likely peak higher than policy makers previously envisioned.

Declines in the price gauges for medical care services and used vehicles restrained the core measure. Higher shelter costs contributed to

more than half of the increase in overall CPI.

Treasury yields plunged while US stock futures surged and the dollar index tumbled. Traders moved closer to pricing in a half-point Fed hike in December, rather than 75 basis points, and cut to below 5 per cent where they see the peak rate coming next year.

The median estimates in a *Bloomberg* survey of economists called for a 0.6 per cent monthly

gain in the CPI and a 0.5 per cent advance in the core.

Fed officials will have both another CPI report and jobs report in hand before the end of their two-day policy meeting in mid-December.

Meantime, elevated inflation continues to weigh on American households and the broader economy. High prices have eaten away at wage gains and led many to either tighten their belts or rely on savings and credit cards to keep spending.

Inflation and the broader performance of the economy played a role in Tuesday's midterm elections, though exit polls suggest social issues proved a bigger factor than pre-election polling had suggested. As of Thursday morning, the results were unclear, but it appeared that Republicans will gain a narrow majority in the House of Representatives.

Stocks surged and Treasuries rallied as a result. The S&P 500 rose 4 per cent and the Nasdaq 100 jumped more than 6 per cent. Treasuries rallied with the two-year rate, tumbling 20 basis points.