Comerica Economic Alert

Comerica Bank

■ Robert A. Dye, Ph.D. ■ Daniel Sanabria @Comerica_Econ

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November Consumer Price Index, Producer Price Index, Mortgage Apps

Falling Energy Prices Keep Headline Inflation in Check

- The Consumer Price Index for November was unchanged from October.
- The Producer Price index for Final Demand increased by 0.1 percent in November.
- Mortgage Applications increased by 1.6 percent for the week ending December 7.

The headline Consumer Price Index for November was unchanged as lower energy prices counteracted moderate consumer price inflation elsewhere. Over the previous 12 months, headline CPI was up by 2.2 percent, well below the 2.9 percent year-over-year gain from mid-summer. The energy price sub-index was down by 2.2 percent in November as gasoline and other petroleum product prices fell. Food prices were up a moderate 0.2 percent. Excluding food and energy, Core CPI increased by 0.2 percent for the month, and was up by 2.2 percent over the previous 12 months.

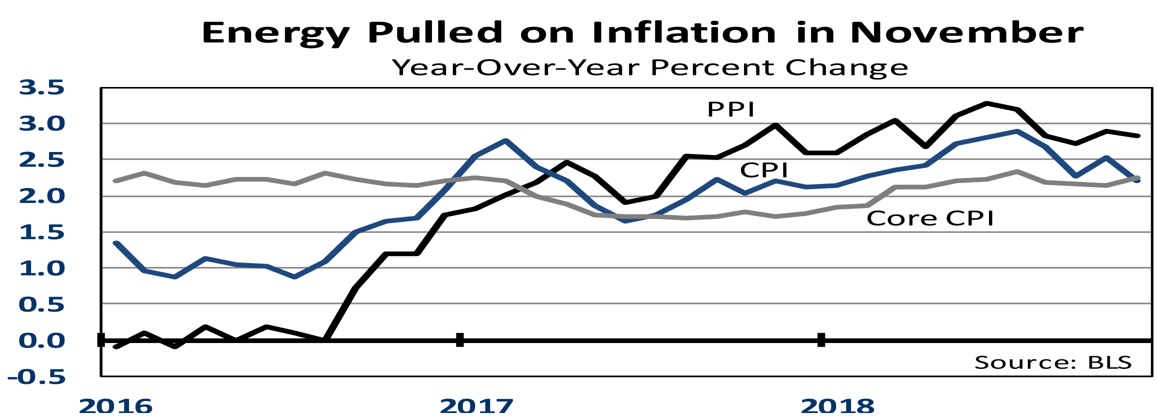
The Producer Price Index for Final Demand increased by just 0.1 percent in November. Over the previous 12 months headline PPI was up by 2.5 percent, well below its 3.4 percent year-over-year gain from last July. Energy was a key drag here as well. The energy sub-index for the PPI fell by 5.0 percent for the month. Outside of energy, price gains were mixed. Food was up by 1.3 percent in November following a 1.0 percent gain in October. The core PPI (final demand less food, energy and trade) was still up by 2.8 percent over the previous 12 months.

So, we can say that inflation metrics in the second half of 2018 have been heavily influenced by the oil price rollercoaster. Outside of energy there is some upstream price pressure that appears to be disconnected from consumer prices. This implies that profit margins are under some pressure. Additional pressure is coming from the U.S.-China trade war which is disrupting global supply chains.

We expect the Federal Reserve to announce the fourth 25 basis point fed funds rate hike for 2018 next Wednesday afternoon, despite the tepid headline inflation numbers for November.

Total mortgage applications were up by 1.6 percent for the week ending December 7 as both purchase and refi apps increased. Purchase apps were up by 2.5 percent, their fourth consecutive weekly gain. Refi apps increased by 1.8 percent for the week, after increasing in the previous two weeks. On a four-week moving average basis, refi apps are down 36.2 percent from ago while purchase apps are down by just 0.2 percent. According to the National Association of Realtors, October existing home sales were down by 5.1 percent over the previous 12 months, worse than the mortgage apps numbers would imply. Lower yields on long duration Treasury bonds have helped mortgage rates. According to the Mortgage Bankers Association, the rate for a 30-year fixed rate mortgage fell for the third consecutive week, to 4.96 percent.

Market Reaction: U.S. equity markets opened with gains. The 10-Year Treasury bond yield is up to 2.90 percent. NYMEX crude oil is down to $52.58/barrel. Natural gas futures are down to $3.88/mmbtu.



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