Macro Note

US Oct CPI: Above expectations inflation reinforces case for Dec rate hike

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- **US inflation remained firmer than expected in Oct, with headline CPI rising 0.4% m/m and core CPI increasing 0.3% m/m, both exceeding market forecasts.** While energy price increases moderated noticeably from Sep, inflation was supported by stronger food prices and persistent services-related pressures. Shelter inflation eased slightly but still accounted for over 30% of the monthly increase in headline CPI, while categories such as motor vehicle insurance, medical care, recreation and transportation services continued to record firm gains.

- **Underlying inflation pressures appeared to be increasingly broad-based despite some moderation in energy-driven price gains.** Goods inflation slowed as gasoline price increases cooled and used vehicle prices declined, but food inflation accelerated and core services inflation remained resilient. Super-core services inflation stayed elevated, highlighting persistent price pressures beyond housing. The data suggest inflation risks remain skewed to the upside, supported by tariffs, AI-related demand, and potential energy market disruptions linked to geopolitical developments.

- **A stronger-than-expected labour market and sticky inflation reinforce expectations for further Fed tightening in Dec FOMC.** Nonfarm payrolls increased by 165,000 in Oct, well above expectations, while unemployment remained stable at 4.1%, indicating continued labour market resilience. Combined with the upside CPI surprise, markets are now fully pricing a 25bp Fed rate hike in Dec, while expectations for a larger 50bp move have increased. We maintain our base case for 25bp hikes each in Dec 2026 and 1Q27, though the risk of additional tightening has risen.

Oct headline CPI moderated as energy price increases cooled, while core CPI inflation remained steady amid continued shelter and services-related price pressures, but both were higher than expectations

US headline CPI inflation remained elevated in Oct, although the pace of increase moderated from Sep as the surge in energy prices began to ease. Energy prices continued to rise, but at a much slower rate than in the previous month, while food inflation picked up noticeably. Core CPI (which excludes energy and food) rose at the same pace as Sep, with shelter inflation slowing slightly (but still accounted for over 30% of the headline increase) while several services-related categories continued to post firm gains. However, both headline and core CPI came in above market forecasts.

Headline CPI rose +0.4% m/m (above Bloomberg est. +0.3%, from 0.6% in Sep) and core CPI ex-food and energy rose +0.3% m/m (also above Bloomberg est. +0.2%, same pace as Sep), marking the third consecutive month of upside surprise for the core reading. BLS did not release the y/y change because the Oct 2025 data was not released during the record federal government shutdown. Even as shelter costs

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decelerated to +0.3% from +0.4% in Sep, this was offset by broad-based increases in essentials including food and energy. Besides the war-driven energy prices. Tariffs and the AI- buildout were also other key factors some economists attributed to the higher price increases seen in Oct.

As mentioned earlier, the increase in headline inflation was driven by a combination of food, energy and shelter prices. The overall energy index (around 7.6% share of CPI) rose by 0.7% m/m in Oct following a 5.2% m/m increase in Sep. Gasoline prices increased 1.0% m/m, a sharp slowdown from the 9.1% m/m increase recorded in Sep. Meanwhile, shelter (35.2% weight in CPI) increased by 0.3% m/m after rising 0.4% m/m in Sep, although it still accounted for more than 30% of the monthly increase in the all-items index. Food prices accelerated to 0.5% m/m from 0.0% in Sep, contributing more meaningfully to headline inflation during the month.

And within the US food prices, food at home increased by 0.4% m/m while food away from home rose 0.5% m/m. Within food at home, increases in other food at home (+0.7% m/m), meats, poultry, fish and eggs (+0.5% m/m), fruits and vegetables (+0.6% m/m), and dairy products (+0.6% m/m) more than offset declines in non-alcoholic beverages (-0.3% m/m), while cereals and bakery products were unchanged. Due to the lack of Oct 2025 observations, year-on-year food inflation measures were not published for Oct 2026.

Other than shelter, core CPI was supported by several categories in Oct, suggesting that inflation pressures remained evident across parts of the services sector while selected goods categories continued to show resilience. According to the Oct CPI report, categories registering increases during the month included:

1) education (+0.3% m/m, 2.6% weight),
2) motor vehicle insurance (+0.7% m/m, 2.5% weight),
3) lodging away from home (+0.6% m/m, 1.4% weight),
4) apparel (+0.1% m/m, 2.5% weight),
5) household furnishings and operations (+0.2% m/m, 4.2% weight),
6) new vehicles (+0.2% m/m, 3.7% weight),
7) medical care services (+0.3% m/m, 6.8% weight),
8) hospital services (+0.8% m/m, 2.2% weight),
9) airline fares (+0.4% m/m, 1.1% weight),
10) recreation (+0.8% m/m, 5.1% weight),
11) computers, peripherals, and smart home assistants (+0.5% m/m, 0.3% weight),
12) smartphones (+1.4% m/m),
13) toys (+1.8% m/m, 0.3% weight).

Conversely, similar to Sep, less items recorded declines during the month. Items that recorded price declines included:

1) communication (-0.1% m/m, 3.2% weight),
2) used cars and trucks (-1.2% m/m, 2.7% weight),
3) medical care commodities (-0.5% m/m, 1.4% weight).

The housing component (including shelter) rose 0.3% m/m in Oct compared with 0.4% m/m in Sep. As noted earlier, shelter (35.2% weight) increased by 0.3% m/m, while owners' equivalent rent rose 0.3% m/m and rent of primary residence increased 0.2% m/m. As a result, housing remained the largest contributor to monthly inflation, accounting for roughly 0.15 percentage points of the 0.4% increase in headline CPI. Although shelter inflation moderated slightly, it continued to account for more than 30% of the monthly rise in the overall CPI basket,

underscoring the persistence of housing-related inflation pressures. Transport-related inflation remained supported by higher gasoline prices and increases in transportation services, while food prices contributed more significantly than in Sep.

Goods (commodities) prices continued to strengthen in Oct, although the momentum eased considerably from Sep as energy inflation moderated. Headline goods inflation rose 0.4% m/m in Oct after a 1.2% m/m increase in Sep, driven primarily by food and energy-related categories. Core goods inflation (excluding food and energy) increased by 0.2% m/m, compared with 0.3% m/m in Sep. While price increases in selected technology-related products remained evident, sizeable declines in used vehicle prices helped offset some of the broader gains.

Services inflation remained firm in Oct. Headline services prices increased by 0.4% m/m, unchanged from Sep. Services less energy services rose 0.3% m/m, while services less rent of shelter accelerated to 0.5% m/m from 0.3% m/m in Sep, indicating that inflation pressures outside housing remained notable. Recreation services, transportation services, motor vehicle insurance and medical care services all continued to register firm increases during the month. Importantly, according to Bloomberg calculations, **super-core services inflation** (ex-housing and energy) rose 0.40% m/m and 3.52% y/y (from 0.42% m/m and 3.1% y/y in Sep), showed continued signs of underlying services inflation momentum. Overall, the Oct CPI report suggested that while the energy-driven inflation impulse has moderated from the sharp increases seen in Sep, underlying services inflation remains sufficiently firm to warrant continued monitoring.

US Inflation Outlook – Upside risks remain due to energy and broadening price pressures

For the remainder of 2026, US inflation is likely to remain elevated relative to the Federal Reserve's 2% target. Even as the recent energy-driven CPI acceleration appears to moderate in Oct, the Sep and Oct data does point to continued signs of broadening price pressures in terms of non-oil commodities and a pickup in services prices. Looking ahead, headline CPI is likely to stay elevated at the above 3% range with a risk of peaking to 4% if energy prices stay elevated due to the on-going Middle east developments. Taking into account the price developments in the first 10 months of 2026, **we still expect headline CPI inflation to average around 3.5% in 2026, while core CPI inflation is expected to average around 2.8%.** While both measures remain above the Fed's 2% target, we are still projecting both headline and core CPI inflation to ease towards 2% in 2027 provided energy prices continued to ease and stay contained while shelter inflation continues to normalize. Geopolitical developments in the Middle East remain an important source of uncertainty for the energy outlook, while tariff-related cost pressures, the AI-related price pressures could still generate pockets of goods inflation over the coming quarters.

Oct employment rise of 165,000 beat expectations with broad-based gains

Last week, the latest US Employment Situation report by the Bureau of Labor Statistics (BLS) showed a marked improvement in labour market conditions in Oct even as the initially soft Sep report saw a notable upward revision. Total nonfarm payroll (NFP) employment increased by 165,000 in Oct, well above Sep's revised gain of 60,000 (from the prelim estimate of 29,000) and indicative of a decent pickup in hiring momentum. Employment gains were concentrated in professional and business services, health care, and transportation and warehousing. Meanwhile, the unemployment rate was unchanged at 4.1% in Oct, remaining within the narrow 4.1%-4.3% range that has prevailed since Mar. The number of unemployed persons was little changed at 7.1 mn, while labor market participation remained stable. Both

the labor force participation rate and employment-population ratio were broadly unchanged at 61.9% and 59.3%, respectively, suggesting a labor market that remains balanced despite slower job creation compared with earlier stages of the expansion. Overall, the Oct report points to a labour market that has regained some traction after the weak Sep outturn but continues to expand at a moderate pace consistent with ongoing economic cooling rather than outright deterioration.

The labour market in Oct displayed firmer underlying momentum than the Sep release. Payroll gains were led by services-producing industries, particularly professional and business services, health care, and transportation and warehousing, which accounted for the bulk of net job creation. The improvement in hiring was broadly consistent with the stronger headline payroll outcome, while most major labour market indicators remained stable. Although the unemployment rate held steady at 4.1%, the increase in employment was accompanied by a stable labour force participation rate, suggesting that job growth was sufficient to absorb new labour force entrants. Elsewhere, the number of people working part time for economic reasons increased by 339,000 to 4.8 mn, indicating that some pockets of labour market slack remain. Overall, the Oct report suggests that labour demand remains intact despite the moderation seen earlier in the quarter, and the broader labour market continued to be characterised by resilience.

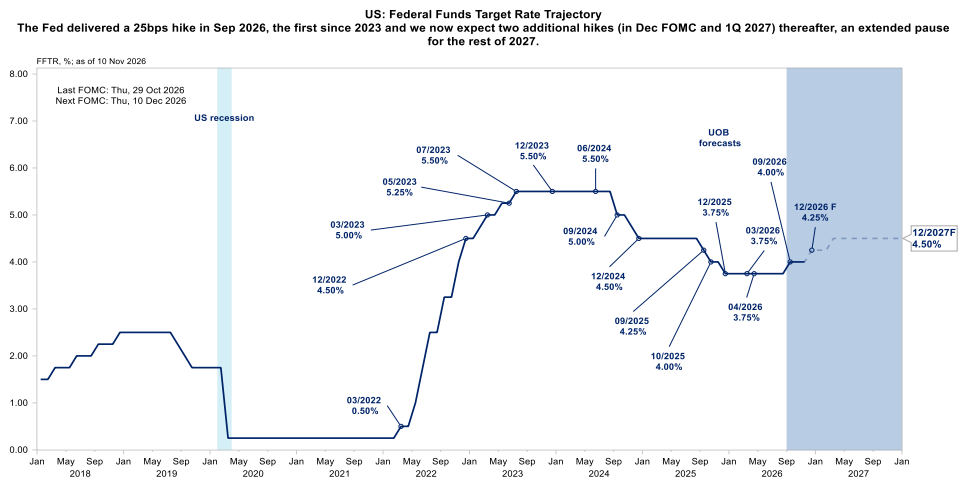
Our FOMC Outlook - Still expecting Dec & 1Q27 hikes, but the risk is for the Fed to do more

Post-Oct CPI release (and the earlier Oct jobs data), the probability of a 25-bps hike in the Dec FOMC are fully priced in (vs 84% prior to CPI release) while the probability of a bigger 50-bps hike is now at 13.9% according to the Bloomberg WIRP (as of 11 Nov). The upward repricing of a bigger hike for Dec FOMC was not a surprise given the hawkish Fed commentary post-CPI release (especially with Fed Governor Waller putting a 50-bps hike on the table for Dec while Dallas Fed President Logan warning the potential for a faster pace of hikes).

We maintain our base case that the Fed will resume its hiking cycle, with a 25-bps rate hike in 8/9 Dec 2026 FOMC and another hike in 1Q-2027 before keeping policy on pause for the rest of 2027. That said, we acknowledge the risk of Fed doing more has risen. The Oct CPI will be the last CPI report before the Fed meets in Dec, but there will also be the Oct PCE (25 Nov) and the Nov US employment report (4 Dec).

UOB's projected US Federal Funds Target Rate trajectory (as of 11 Nov 2026)

Source: Macrobond, UOB Global Economics & Markets Research



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