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Rachel Wolff

November's inflation report is a promising sign for consumers and retailers

Article

The news: US inflation eased in November as energy prices continued to fall, bringing some relief to businesses and consumers.

- Excluding food and energy, **the consumer price index (CPI) rose 0.2% month-over-month** (MoM), the smallest increase since August 2021, per the Labor Department.
- **Overall CPI was 7.1% higher year-over-year** (YoY), a significant easing from October's 7.7% inflation rate.

A closer look: Higher shelter and food costs drove most of the CPI gains in November, although rents are beginning to fall as demand softens and more people turn to roommates to manage costs.

- But food costs continue to pressure household budgets. Grocery costs rose 0.5% MoM and 12.0% YoY in November due to higher prices for fruit and vegetables, cereals and bakery products, and dairy products. However, consumers did see some relief in the form of lower beef and pork prices.
- Used car prices fell 2.9% as rising interest rates and healthier levels of new car inventory ate into demand.
- Airline fares have fallen significantly since peaking in May 2022, edging closer to pre-pandemic levels as fuel prices fall and airlines ramp up flight capacity.

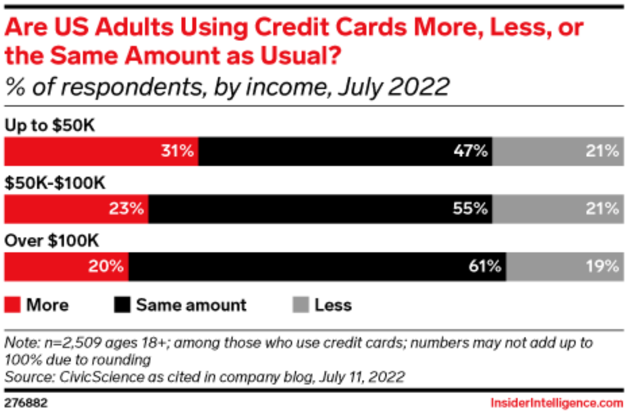
Zooming out: While the better-than-expected CPI reported is unlikely to alter the Federal Reserve's plan to raise interest rates by another half point before the end of the year, it could be the sign the Fed needs to begin easing rate hikes.

- However, in a recent speech, chairman **Jerome Powell** noted that the persistently tight labor market and robust wage growth could continue to fuel inflation, which could lead the Fed to stick to its aggressive policy.
- The unemployment rate has remained more or less steady since March, hovering between 3.5% and 3.7%.
- Wages continued to rise in November, increasing by 0.5% when adjusted for inflation, per a Labor Department report.

Looking ahead: Despite easing inflation, consumers are still under pressure. Real wages may have risen in November, but they're still 1.9% lower than they were a year ago.

- Most shoppers (59%) plan to pull back their spending in 2023, compared with just 22% who plan to spend freely, per a survey by consumer research platform Attest.

- Credit card balances rose $38 billion in Q3—a 15% increase YoY, and the biggest spike in over 20 years, per the Federal Reserve Bank of New York, as consumers take on more debt to cope with rising prices.



Still, consumer spending remains robust, although certain behaviors that emerged over the past year—more shoppers trading down to cheaper brands and private labels, opting for necessities over discretionary goods—will continue to be in play in 2023 as cost concerns stay top-of-mind.

*This article originally appeared in Insider Intelligence's **Retail & Ecommerce Briefing**—a daily recap of top stories reshaping the retail industry. Subscribe to have more hard-hitting takeaways delivered to your inbox daily.*

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