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Inflation Cools, but Data Has Gaps

Shutdown affected collection in the field for the delayed November report

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Inflation eased unexpectedly in November, but economists cautioned against reading too much into the report because of gaps in data collection during the long government shutdown.

The government's closure made it impossible for Labor Department workers to collect some of the data they normally would have to compile the report on the consumer price index. Even before the release, economists warned that technical workarounds that the agency used to deal with the collection issues may have biased the November figure downward, causing inflation to be understated.

The Thursday report, which was released later than normal because of the shutdown, said that consumer prices rose 2.7% in November from a year earlier. That was down from 3% in September and lower than the 3.1% forecast by economists polled by The Wall Street Journal.

Treasury yields were relatively steady following the report, but stocks climbed. The Dow gained 0.1% Thursday, while the S&P 500 added 0.8% and the Nasdaq rose 1.38%.

The core measure of prices, which strips out volatile food and energy costs, increased 2.6%. That was also lower than economists' expectations.

Officials weren't able to collect prices in the field during the long government shutdown that lasted until Nov. 12,

--and there was no October CPI report. Thursday's November report didn't break down month-over-month changes for October and November for most items, and it was hard to draw conclusions about how the economy is faring.

"I think you largely just put this one to the side," said Alan Detmeister, an economist at investment bank UBS. "Maybe this report gives a minor downward sign for overall inflation, but the vast, vast majority of this is just noise and should be ignored."

Several analysts said Thursday's report underscored the importance of having reliable and high-quality government data produced by nonpolitical technical statisticians. Doubts about whether that data is properly capturing underlying trends could limit its usefulness for a range of businesses, investors and government agencies that rely on it.

Economists' frustration with the data marked a difficult end to an annus horribilis for the Bureau of Labor Statistics, the Labor Department's statistics arm. Already grappling with understaffing and tight budgets, the nonpartisan agency was dragged into the political fray in August when President Trump fired its commissioner, saying without evidence that the jobs numbers were rigged to make him look bad.

A career official, William Wiatrowski, has been serving as acting commissioner since the summer, continuing in the role after Trump withdrew his nominee for the job, E.J. Antoni, who had faced criticism over his qualifications and partisanship.

A BLS spokeswoman said that its approach conformed with the agency's longstanding plans for handling missing data, consistent with international standards.

Federal Reserve officials will have one more inflation report before their next meeting, and that reading is likely to be much more important in helping policymakers calibrate their outlook for inflation. Fed officials have been unusually divided over whether inflation or job-market risks should be their greater worry, and they are watching inflation readings carefully to assess how businesses are passing through tariff-related cost increases.

Fed Chair Jerome Powell warned last week that Thursday's report could be affected by the shutdown. "We're going to look at that really carefully and understand that it may be distorted by very technical factors."

Even once data collection resumed, the shutdown forced the BLS to make compromises that impeded the quality of the data, economists who reviewed the numbers said.

One of those problems was straightforward, economists said: Black Friday sales. As BLS workers returned to the job, retailers were cutting prices to offer traditional post-Thanksgiving discounts. The BLS uses a seasonal adjustment to correct for that trend. But that seasonal adjustment is designed for a normal November, when workers spend weeks collecting prices before the blockbuster sales begin.

An even bigger issue: Missing October data likely made November housing-cost increases look milder than they really were. The BLS estimates housing inflation by looking not at a snapshot of current rent levels, but at how rents have changed over previous months, economists said. The missing data led the BLS's formula to assume that housing prices didn't increase at all in October, a zero that pushed down estimated rent levels in November as well.

"It's possible that this does reflect a genuine drop off in inflationary pressures, but such a sudden stop, particularly in the more-persistent services components like rent of shelter is very unusual, at least outside of a recession," wrote Capital Economics economist Paul Ashworth.

Thursday's data issues aside, tariff policy has largely dominated the conversation around prices this year. Businesses have been passing along some of the costs of Trump's tariffs to customers.

Core commodities excluding food and energy were up 1.4% over the year, reflecting inflation from tariffs. Tobacco and used cars were among the items that led the way.

Rising prices have become a concern for more and more Americans, so much so that discontent over affordability has shaped local elections and forced the Trump administration to re-examine its messaging on the economy.

Some companies have already raised prices on consumers as a way to deal with Trump's new tariffs. Others are waiting to see how tariffs settle before raising prices in order not to scare away customers. Economists and investors want to see how inflation prints for January and February, since many businesses adjust their prices at the start of the year.