On the Minds of Investors

Why hasn't the energy shock led to more core inflation?



Jack Manley
Global Market Strategist

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With the Fed's pivot to rate hikes and hawkish commentary from voting members, inflation is front and center for investors again. To add to the mix, the October CPI report came without the usual y/y readings, as last year's government shutdown

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That runs against conventional wisdom, so why hasn't the energy shock spread to broader prices? It comes down to how different components are priced.

- **Shelter:** The largest weight in core inflation is also one of its biggest drivers, yet its link to energy costs is weak. Higher energy prices can lift inflation expectations and mortgage rates, pushing would-be buyers into renting and driving up shelter costs. That chain is indirect, though, and could take years to play out.
- **Core goods:** Diesel and petrochemicals are a thin layer of a product's retail price, which is mostly labor, manufacturing and margin. With consumers stretched, retailers have largely absorbed those costs. Falling auto prices have helped too, with used cars down 1.2% in October and 3.3% over the past year.
- **Food:** Diesel and fertilizer matter more here, which helps explain October's 0.5% gain. Diesel feeds into every step from farm to shelf, but fertilizer only hits the farm, and farm products account for less than 20% of a typical grocery bill. Most of what consumers pay still goes to labor, processing and retail.
- **Transportation services:** Fuel is roughly 30% of airline operating costs, so airfares are highly sensitive to energy. But airfares are only about 1% of CPI and less than 20% of transportation services. Roughly two-thirds of that bucket is auto insurance and maintenance, which crude prices don't directly move.

Ultimately, an energy shock becomes broad inflation when workers win catch-up raises and businesses raise prices in anticipation of more inflation. Neither has happened yet. Real weekly earnings for production and nonsupervisory workers fell 0.3% in October, and higher energy bills act as a tax on spending elsewhere, weakening pricing power across the economy.

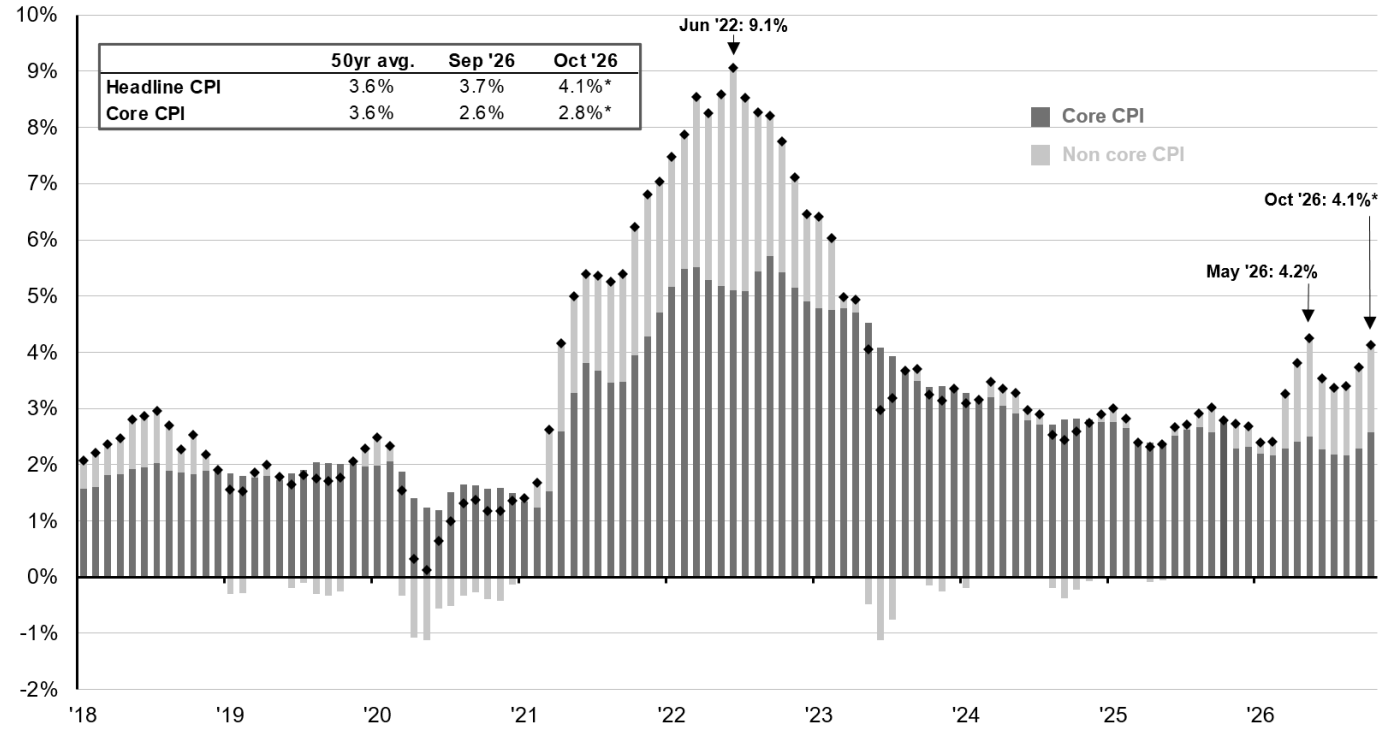
That shapes our view on rates. A higher federal funds rate can cool demand, but it can't reopen shipping lanes. A December hike looks all but certain, and markets still expect more in 2027, but the repricing higher is likely done. At the end of September, the fed funds futures curve priced this cycle's peak near 4.8%; even after October's hot print, that peak sits a bit lower, at 4.7%. With President Trump saying the war is militarily "effectively over" and gas prices back below $4 a gallon, the shock behind that repricing is fading. As a result, peak pricing of rate hikes is likely in the rearview mirror.

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Contributors to headline CPI inflation

Contribution to year-over-year % change in CPI, non-seasonally adjusted



Source: BLS, FactSet, J.P. Morgan Asset Management.

Contributions mirror the BLS methodology on Table 7 of the CPI report. Values may not sum to headline CPI figures due to rounding and underlying calculations. "Shelter" includes owners' equivalent rent, rent of primary residence and tenants' and household insurance. "Food at home" includes alcoholic beverages. "Other services" includes services not shown separately elsewhere in the chart, including health care services, education and communication and other personal services. Headline and core PCE deflator inflation shown are based on seasonally adjusted data due to data availability. Official October 2025 data are unavailable due to the government shutdown. *October 2025 and 2026 figures shown are J.P. Morgan Asset Management estimates.

Guide to the Markets – U.S. Data are as of November 10, 2026.

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About the Author



Jack Manley

Global Market Strategist

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