ECONOMIC UPDATE

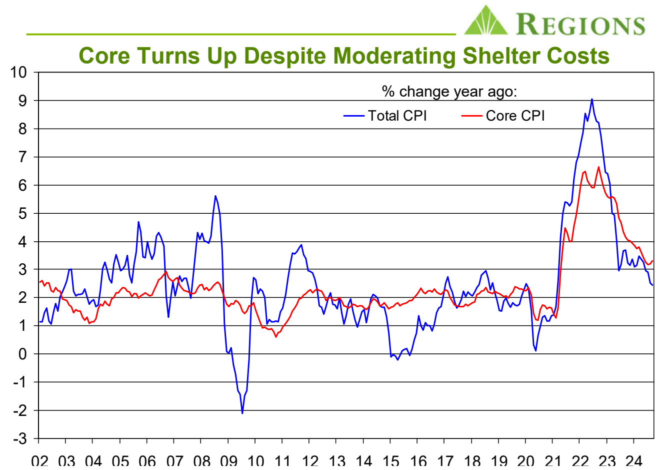
REGIONS

October 10, 2024

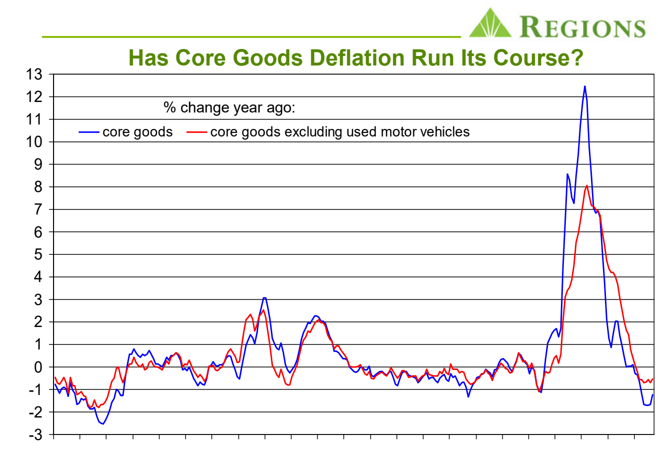
September Consumer Price Index: Some Big Swings, But Not Broadly Based Increases

- The total CPI rose by 0.2 percent in September (up 0.179 percent unrounded); the core CPI rose by 0.3 percent (up 0.312 percent unrounded)
- On a year-over-year basis, the total CPI is up 2.4 percent and the core CPI is up 3.3 percent as of September

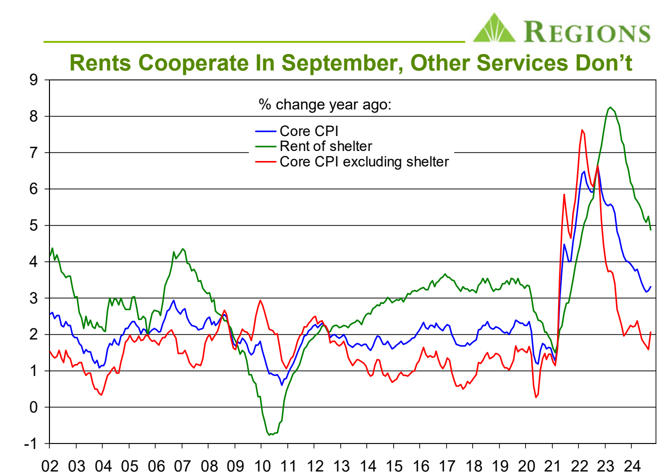
The total CPI rose by 0.2 percent in September, ahead of the 0.1 percent increase we and the consensus forecast anticipated, while the core CPI was up by 0.3 percent, matching our forecast but ahead of the 0.2 percent increase anticipated by the consensus forecast. Our miss on the headline forecast mainly reflects two factors; first, a larger increase in food prices than we had anticipated and, second, an increase in prices for core consumer goods excluding used motor vehicles, though this reflects sizable changes in a few components as opposed to more broadly based increases in good prices. Though the monthly changes came in a bit hotter than many analysts and market participants had expected, we do not see the September CPI data as changing the course of the FOMC. The monthly changes in any given data series do not tend to move in nice straight lines, which is on exhibit in the September CPI data in the form of some sizable changes in volatile components. Given how far inflation has come down from its cyclical peak, the FOMC has the latitude to be more focused on the risks to the labor market, which many FOMC members see as tilted to the downside. As such, we continue to expect twenty-five basis point cuts in the Fed funds rate at both the November and December FOMC meetings.



The overall index of food prices rose by 0.4 percent in September, with prices for food consumed at home up 0.4 percent and prices for food consumed away from home up 0.3 percent. The jump in prices for food consumed at home ends a seven-month run over which the average monthly change in the index was zero. While we cannot be sure of this, it does seem that the effects of Hurricane Helene account for at least some of the jump in September, looking through the individual components such as eggs, fruits, and vegetables. Coming months' data will help shed light on this. The overall index of energy prices fell by 1.9 percent in September, led by a 4.1 percent drop in seasonally adjusted retail gasoline prices which helped offset jumps in electricity rates and prices for residential gas service. After having been a net drag on the headline CPI for the past five months, gasoline prices have spiked over the past week and could well transition to a driver of headline inflation in the near-term, depending in large measure on the path of crude oil prices.



Core goods prices rose by 0.2 percent in September, and while this was in part a function of rising prices for used motor vehicles, that increase was smaller than we had anticipated. As we've discussed in past months, we prefer the BLS's measure of core goods prices excluding used motor vehicles as a more meaningful gauge of the path core goods prices, given what have tended to be outsized changes in prices for used motor vehicles since the onset of the pandemic. Excluding used motor vehicles, core goods prices rose by 0.2 percent in September, the largest monthly increase since March 2023, when the pandemic-related jump in goods prices was subsiding. Going to our earlier point about sizable but isolated increases, apparel prices rose by 1.1 percent in September, an unusually large increase for this category which was largely fueled by jumps in prices for jewelry and men's suits. Additionally, the broad index of prices for furniture and bedding rose by 1.7 percent, largely on a 3.2 percent jump in prices for living room, kitchen, and dining room furniture, an increase totally at odds with what had been a string of declines. That said, it could be that sizable increases in shipping rates since the start of the year will begin to show up in the form of higher goods prices, which would be noteworthy given that falling core goods prices have been a drag on headline inflation over the past several months.



We and others were caught off guard by the August data showing a 0.5 percent increase in owners' equivalent rents. As expected, however, that jump moderated in September, with owners' equivalent rents up by 0.3 percent, matching the increase in primary (market) rents. Still, core services prices rose by 0.4 percent, matching August's increase, which in part reflects a 3.2 percent increase in air fares and a 1.2 percent increase in rental car rates. While we expected these factors to help move the needle on core inflation, lodging rates fell, contrary to our expectations. While renter/homeowner insurance rates fell, rates for motor vehicles rose by 1.2 percent, with increases in prices for physician services and nursing home care also propped up the index of core services prices.

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