ECONOMIC UPDATE

REGIONS

October 24, 2025

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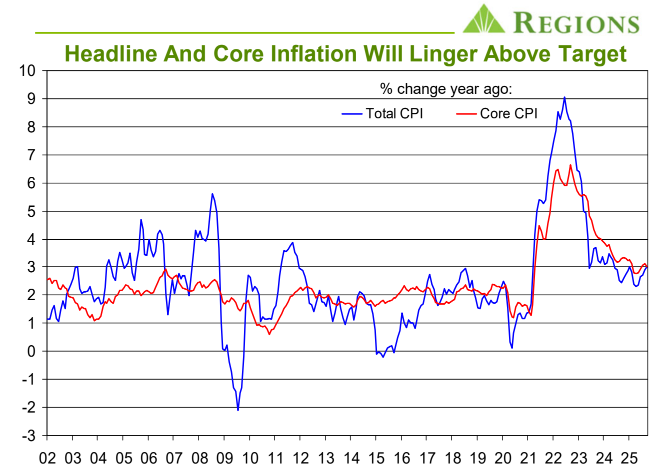
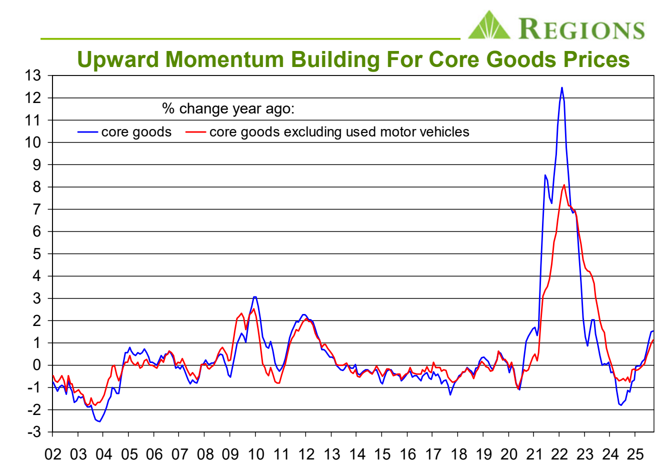
September Consumer Price Index: Core Goods Prices Stir Further; Payback In Rents

- The total CPI rose by 0.3 percent in September (up 0.310 percent unrounded); the core CPI rose by 0.2 percent (up 0.227 percent unrounded)
- On a year-over-year basis, the total CPI is up 3.0 percent and the core CPI is up 3.0 percent as of September

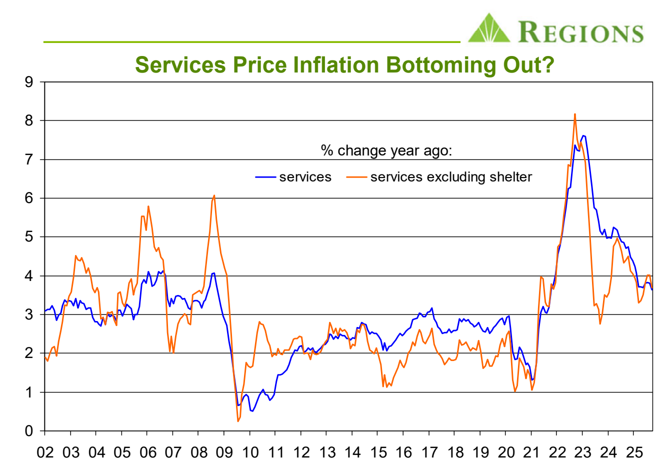
The total CPI rose by 0.3 percent in September while the core CPI rose by 0.2 percent, each matching our forecast but each one-tenth of a point less than the consensus forecast. On a year-on-year basis, both the total CPI and the core CPI are up 3.0 percent. Much of the softer print on the core CPI reflects a marked slowdown in rent growth, and while this is in line with market-based measures of rents, in the context of the CPI data it mostly reflects payback from an oddly large increase in the August data that was heavily concentrated in the Sunbelt region. Keep in mind that rents account for over forty percent of the core CPI and, as such, the slowdown in rents can cover what were firmer prints on prices for discretionary services, including lodging and air fares, and a hefty increase in core goods prices excluding used motor vehicles. Ahead of today's release, we and most others believed a twenty-five basis point cut in the Fed funds rate at next week's FOMC meeting was all but a given regardless of whether the core CPI printed at 0.2 or 0.3 percent, as enough Committee members are focused on the downside risks to the labor market to warrant another "risk management" cut. That said, some are pointing to the September data as being sufficiently tame as to lock in another like-sized funds rate cut at the December FOMC meeting. While the headline prints on the September report may seem to support that contention, we'd argue that the details of the September report tell a different story. Obviously, we do not know at this point how long the government shutdown will endure or what data the FOMC will have at their disposal when they gather in December. We do know that the September report is the last read on the CPI there will be for the remainder of the shutdown, as this report was produced to fulfill the mandated computation of the annual cost-of-living adjustment to Social Security benefits. With hints of stronger tariff pass-through into core goods prices, the September CPI data will give those FOMC members still focused on the upside risks to inflation solid ground on which to stand. As such, we'd argue that nothing at all is set in stone for an FOMC meeting as far off as December.



The overall index of energy prices was up by 1.5 percent in September, pushed higher by a 4.1 percent increase in gasoline prices that added over one-tenth of a point to the monthly change in the total CPI. Contrary to typical seasonal patterns, retail gasoline prices rose on a not seasonally adjusted basis in September, and seasonal adjustment amplified this increase. Recent weeks, however, have seen some steep declines in retail gasoline prices, meaning gasoline will be a drag on the October CPI whenever that report is released. It is also worth noting that electricity prices fell by 0.5 percent in September, extending a run of softness following a prolonged period of hefty advances. The overall index of food prices was up by 0.2 percent, more than our forecast anticipated as prices for food consumed at home showed more resolve than we had anticipated, up by 0.3 percent after August's 0.6 percent gain. The offset in September came from prices for food consumed away from home, which rose by just 0.1 percent, softer than our forecast anticipated.



Owners' equivalent rents were up by just 0.1 percent but, as noted above, this more or less evens out the surprisingly large 0.4 percent gain in August, while primary rents posted a 0.2 percent advance. The line item for lodging rates including hotels was up 1.7 percent, while air fares were up 2.7 percent, each surprising us to the upside but each consistent with anecdotal reports of a late-summer/early-fall rebound in demand after softness during the height of summer. As noted above, however, the weighting of rents in the core CPI won out, and even with stronger prints on prices for health services, recreation services, and travel services, overall core services prices rose by just 0.2 percent in September. Core goods prices were also up by just 0.2 percent after having risen by 0.3 percent in August, but this largely reflects softer vehicle prices, with new vehicle prices rising by just 0.2 percent and used vehicle prices falling. That said, the index of core goods prices excluding used vehicles rose by 0.3 percent, the largest monthly increase since March 2023. Prices for apparel, appliances, and furniture were up meaningfully in September, offsetting softer prints in other goods categories. Even so, there is clear upward momentum in core goods prices, which we expect to build further in the months ahead.



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