

Economics

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US CPI (Sep): Tame across the board

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Consumer Price Index (monthly change, %)	Sep 2025	Aug 2025	July 2025	June 2025	May 2025	Apr 2025	Sep NSA YoY%
All items	0.3	0.4	0.2	0.3	0.1	0.2	3.0
Ex-food/energy	0.2	0.3	0.3	0.2	0.1	0.2	3.0
• Ex-food	0.3	0.4	0.2	0.3	0.0	0.3	3.0
• Ex-energy	0.2	0.4	0.3	0.2	0.2	0.2	3.0
Energy	1.5	0.7	-1.1	0.9	-1.0	0.7	2.8
Services	0.2	0.3	0.3	0.3	0.2	0.4	3.6
Housing	0.2	0.4	0.2	0.3	0.3	0.5	3.9
Fuels & util.	-0.5	-0.1	-0.1	0.8	0.4	1.1	5.8
Food/beverages	0.2	0.5	0	0.3	0.3	-0.1	3.0
• Food	0.2	0.5	0	0.3	0.3	-0.1	3.1
Apparel	0.7	0.5	0.1	0.4	-0.4	-0.2	-0.1
Transportation	0.8	0.9	0	0.1	-0.7	0.0	1.7
Medical care	0.2	-0.2	0.7	0.5	0.3	0.5	3.3
Recreation	0.4	-0.1	0.4	0.4	0.1	0.0	3.0
Education, comm.	0	0	0	0.1	0.1	-0.1	0.4
Other good, serv.	0.5	0.2	0.4	0.4	0.5	0.1	4.1
Commodities	0.5	0.5	0	0.3	-0.1	0.0	1.9

Source: Haver Analytics.

- We're back in business – at least for one day – with today's CPI report. Core CPI came in below expectations in September, at 0.2% m/m with expectations for today set at 0.3%. Headline prices came in a touch hotter at 0.3%, but also below consensus views of a 0.4%. On an annual basis, core moved up a tick and headline down one, with both converging at 3.0%. Inflation was fairly tame across categories. Shelter prices ticked lower due to a major step down in OER costs, non-shelter service prices were mild and goods prices are seeing tariffs impact select categories, but it is neither as broad-based nor is the magnitude of price gains on goods far outside of the historical experience. Used car prices dipped in the month, providing an offset to higher goods prices in the month. The bar to sway the Fed from not cutting in October was very high, and today's data certainly doesn't meet the standard, making next week's rate cut a near lock. But even if inflation had come in a touch hotter, we're not so sure it would have mattered either. Two cuts, or 50bps moves, have become central bankers preferred dosage to provide relief to the economy, in large part because the sensitivity of the economy to rate cuts has declined over time.
- Core goods prices rose by 0.2% in the month, but excluding used cars which dropped by 0.4%, goods prices rose 0.3% in the month. There has been a durable trend up since tariffs have been imposed on core goods ex. used cars, and momentum in the categories is not tracking at 3% annualized. Some categories with high-import content such as

household furnishings and supplies and apparel are showing a sustained boost to prices from tariffs, but beyond that it's more mixed. New car prices have edged up, but overall, sticker prices are still fairly tame, consistent with the guidance from car makers. A combination of pre-tariff inventories still being worked down, firms absorbing a material part of the cost and import substitution to lower tariffed, as well as generally cheaper products, are the forces acting to keep goods prices tame.

- There was a bit of a head-scratcher in today's report was the material dip in OER costs, down from 0.4% in August to 0.1% in September. OER rose in the month prior from 0.3% to 0.4%, which is within the normal standard deviation of moves for that series. But a drop to 0.1% appears unusually steep, although it's consistent with the gradual move down in rental inflation, both in the CPI and what lagged market-based measures would imply. That lone pushed core CPI from 0.3% territory to comfortably in the 0.2% zone. That offset the second consecutive month of higher hotel prices after a steady drop from the fall through the summer. Non-shelter services costs were also mild with transportation services coming down. Car insurance prices declined for the second straight month.
- This was a mild print that will not stand in the way of the Fed cutting again next week. Our call is for the Fed to stay on hold after October for a few meetings, before resuming with cuts early next year. Today's report does boost the odds in our eyes of cuts straight through to January, if we get a few more prints like this or soft jobs data.
- But let's take a step back here from the noise for a moment and pose a question about The Fed "should" rather "will" do. Underlying inflation in the US is still around 3%, plus or minus. The job market is just a smidge off the their median maximum employment estimate, consumers are still spending and while tariffs are slowly spreading into the system, we are likely far from peak tariff impact on prices. Yet the FOMC and the market's bias is towards a quick move to neutral and possibly a bit below (with five SEP votes for below 3% FFR). Sure, politics is no small part of this, as might be a belief that the neutral rate is far below where the FFR currently sits. But a worry one might have is, at the end of this process, how confident are we that we inflation can cure itself, especially given that inflation sat above target before heading into the trade war. The road back to target looks very unclear and it's hard to have high conviction that we know way back home after more than half-a-decade away. We may not be that far from the idea that it's time for a new target.

Implications & actions

Re: Economic forecast — We expect the Fed to cut next week, and the odds are higher for consecutive rate cuts after that, but we will need to see more evidence that price pressures are remaining tame. Without that, we still see the case for the Fed to pause for a few meetings to assess the impact this policy adjustment before cutting rates in first half of 2026.

Re: Markets — Bond yields and the dollar dropped after the report, but that was likely also influenced by the initial claims numbers. Markets have priced in three straight cuts to end the year.

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