

Economics

ECONOMIC FLASH!

economics.cibccm.com

October 13, 2022

US inflation: No sign of relief in September

by Katherine Judge katherine.judge@cibc.com

Consumer Price Index (monthly change, %)	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Sep NSA YoY%
All items	0.4	0.1	0.0	1.3	1.0	0.3	8.2
Ex-food/energy	0.6	0.6	0.3	0.7	0.6	0.6	6.6
• Ex-food	0.3	0.0	-0.2	1.4	0.9	0.2	7.7
• Ex-energy	0.6	0.6	0.4	0.7	0.7	0.6	7.3
Energy	-2.1	-5.0	-4.6	7.5	3.9	-2.7	19.8
Services	0.8	0.7	0.3	0.9	0.8	0.8	7.4
Housing	0.7	0.8	0.4	0.8	0.8	0.6	8.0
Fuels & util.	0.8	1.5	-0.3	2.5	2.9	1.2	16.9
Food/beverages	0.7	0.8	1.1	1.0	1.1	0.8	10.8
• Food	0.8	0.8	1.1	1.0	1.2	0.9	11.2
Apparel	-0.3	0.2	-0.1	0.8	0.7	-0.8	5.5
Transportation	-0.6	-2.3	-2.1	3.8	2.0	-0.4	12.6
Medical care	0.8	0.7	0.4	0.7	0.4	0.4	6.0
Recreation	0.1	0.2	0.3	0.3	0.4	0.4	4.1
Education, comm.	0.1	0.1	-0.2	0.2	-0.1	-0.2	0.2
Other good, serv.	0.3	0.7	0.4	0.5	0.5	0.4	6.9
Commodities	-0.3	-0.8	-0.5	2.1	1.3	-0.3	9.5

Source: Haver Analytics.

- The September inflation data for the US showed that core price pressures remained red hot, adding urgency to the Fed's rate hiking path. Total prices advanced by 0.4% m/m (vs. 0.2% expected), as higher food prices combined with strength in core prices, leaving annual inflation at 8.2% (vs. 8.1% expected). Core prices were up by 0.6% m/m (vs. 0.4% expected), extending the momentum seen in August, and leaving annual core inflation three ticks higher at 6.6% (vs. 6.5% expected). The rise in core prices reflected ongoing increases in the shelter component, which can lag on-the-ground developments in the housing market by around a year. However, price pressures were broad based outside of that category as well, and suggest that the Fed could hike by more than previously thought at the next FOMC.
- While Americans continued to save on gasoline in September, fortunes have shifted in October, as the OPEC+ announcement to cut production has resulted in higher gasoline prices, leaving less money for spending elsewhere. With no signs of a levelling off in food prices, as the labor shortage in the transportation sector and extreme weather conditions continue, total monthly inflation is set to accelerate further in October, although base effects will result in a further easing of the annual rate.

- Another strong monthly increase in the shelter component was not unexpected given the lag with which other measures of housing market activity, that looked hotter during the peak of the pandemic, translate into the CPI with. Shelter costs are the single-largest weighted component of the CPI basket, and given the lags, the Fed understands that it could be the last component to turn softer. At 6.6% y/y, shelter costs are rising at the fastest pace seen since the early 80s and will continue to leave core inflation elevated this year as resetting rents continue to feed through to the index.
- The broad-based nature of price pressures was concerning, as even excluding the shelter component, other core categories were up by 0.5% m/m, matching August's pace of increase. Other core categories that contributed included medical care services, car insurance, new vehicles, household furnishings/operations, and education.
- The increase in new car prices was somewhat unexpected given the improvement in supply chains and inventories in that sector, with the latter translating through only to a drop in used car prices. There is room for drops in both new and used vehicle prices ahead, as prices in both categories are up strongly over the past year. That will come as supply chains continue to improve and demand is limited by higher borrowing costs.
- There were signs of weak demand and high inventories resulting in price cuts in the apparel sector, something that could continue ahead as discretionary purchases are curtailed. Hotel prices were down sharply, and suggest that demand is slowing for some discretionary travel services.

Implications & actions

Re: Economic forecast — Broad based price increases in core services categories, coupled with still-brisk labor market activity, suggest that the Fed could front load rate hikes by more than previously thought at the early November FOMC. The improvement in supply chains feeding through more meaningfully to prices in the quarters ahead will be a key factor in returning inflation to target next year, as the lagged nature of the shelter component will delay its easing.

Re: Markets — Bond yields jumped as investors bolstered expectations for interest rate hikes ahead, and the USD gained ground, while stock futures tumbled.

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority, and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

© 2022 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.

CIBC Capital Markets – PO Box 500, 161 Bay Street, Brookfield Place, Toronto, Canada M5J 2S8 – Bloomberg @ CIBC