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US inflation: No sign of relief in September

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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.