



# Economic Flash!

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## Used Car Prices Put the Brakes on Core US Inflation in September

Summary of the September US consumer price report from the Labor Department.

	Sep	Aug	Jul	Jun	May	Apr	Sep NSAYOY%
All items	0.1%	0.2%	0.2%	0.1%	0.2%	0.2%	2.3%
ex-food/energy	0.1%	0.1%	0.2%	0.2%	0.2%	0.1%	2.2%
Energy	-0.5%	1.9%	-0.5%	-0.3%	0.9%	1.4%	4.8%
Services	0.2%	0.2%	0.3%	0.1%	0.2%	0.1%	2.7%
ex-energy	0.2%	0.2%	0.3%	0.2%	0.3%	0.2%	3.0%
Housing	0.1%	0.3%	0.2%	0.0%	0.2%	0.3%	2.7%
Fuels & util.	-0.6%	0.5%	-0.2%	-0.9%	0.1%	-0.2%	0.5%
Food/beverages	0.1%	0.1%	0.1%	0.2%	0.0%	0.3%	1.4%
Food	0.0%	0.1%	0.1%	0.2%	0.0%	0.3%	1.4%
Apparel	0.9%	-1.6%	-0.3%	-0.9%	0.0%	0.3%	-0.6%
Transportation	-0.3%	0.9%	0.3%	0.4%	0.4%	0.2%	3.7%
Medical care	0.2%	-0.2%	-0.2%	0.4%	0.2%	0.1%	1.7%
Recreation	0.3%	-0.1%	0.2%	0.2%	0.0%	-0.4%	0.2%
Education, comm.	0.1%	0.2%	0.2%	0.2%	0.4%	0.0%	1.2%
Pers. computers	1.1%	1.4%	-2.0%	-0.7%	0.2%	-0.2%	-2.6%
Other good, serv.	0.1%	0.0%	0.0%	-0.1%	0.1%	0.8%	2.2%
Tobacco	0.3%	0.1%	0.1%	-0.4%	0.4%	1.3%	3.2%
Commodities	-0.2%	0.2%	0.0%	0.1%	0.2%	0.4%	1.5%
ex-food/bev.	-0.3%	0.3%	0.0%	0.1%	0.2%	0.4%	1.4%
ex-food/energy	-0.3%	-0.3%	0.1%	0.0%	-0.1%	-0.1%	-0.3%

Source: Bloomberg

- Today's CPI report showed that September was another soft month for prices, with both headline and core price pressures undershooting expectations. A deceleration in headline inflation was largely expected but weakness in core prices for the second consecutive month led to the surprise. While that miss shouldn't sway the Fed from hiking another time in December, as growth readings continue to suggest that the economy is on solid footing, we see rates heading only 50bps higher in 2019 vs. the Fed's forecast of 75bps.
- Headline price pressures advanced by 0.1% in September, reflecting a fall in energy prices, flat food prices and a soft core goods reading. The fall in energy prices was expected, and food

prices have continued to lag which could partly reflect USD strength. In the near-term, the WTI price is tracking higher and should boost headline inflation in the months to come.

- For the second consecutive month, core CPI rose by a below-trend 0.1%, leaving the annual rate of core inflation at 2.2%. That was driven by an extension of the weakness seen in core goods prices in the prior month. While apparel prices rebounded after a historic decline in August, a 3% drop in used vehicle prices, the largest decline seen since 2003, drove the softer advance in core prices. That could partly reverse in the months ahead, especially as demand for vehicles is lifted following hurricanes Florence and Michael.
- Core services prices advanced by a more trend-like 0.2%, with transportation prices in particular showing strength. Motor vehicle insurance costs spiked, which could be a result of hurricane Florence. Medical services, which represent a larger weight in PCE, were up 0.2% and could limit some weakness in September's core PCE figures.

## Implications & Actions

**Re: Economic Forecast** –Overall, today's print shouldn't sway the Fed from hiking again in December given persistent, strong growth readings and core PCE which should only be slightly below the 2% target. Indeed, the 0.1% advance in core prices implies that the Fed's preferred gauge of core price pressures, core PCE, will fall only a hair to 1.9%. As the economy continues to expand at a robust pace, core price pressures should build more meaningfully.

**Re: Markets** –Today's report was negative for the US\$ and saw longer-term yields fall.

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