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September Consumer Price Index: Shelter, Gasoline Push CPI Up More Than Expected

- › The total CPI rose 0.4 percent in September (up 0.396 percent unrounded); the core CPI rose 0.3 percent (up 0.323 percent unrounded)
- › On a year-over-year basis, the total CPI is up 3.7 percent and the core CPI is up 4.1 percent as of September

The total CPI rose by 0.4 percent in September while the core CPI rose by 0.3 percent, the former coming in ahead of the 0.3 percent we and the consensus forecast expected while the increase in the core CPI matched the consensus forecast but was ahead of the 0.2 percent increase we expected. On a year-on-year basis, the total CPI is up 3.7 percent, and the core CPI is up 4.1 percent. A slightly larger increase in seasonally adjusted gasoline prices and a meaningfully larger increase in shelter costs, particularly owners' equivalent rents, are the prime factors behind our forecast miss. Neither, however, is particularly useful as an indicator of underlying inflation pressures; retail gasoline prices have fallen over the past few weeks along with crude oil prices as inventories of gasoline are materially higher than is typical at this point in the year, and retail pump prices will likely drift lower over coming weeks, albeit likely at a slower pace than we had anticipated prior to the conflict in the Middle East. Owners' equivalent rents likely reflect, at least to some extent, the surprising resilience of house prices, though that will be put to the test by recent increases in mortgage interest rates. At the same time, it is by now well known that the CPI measure of primary rents significantly lags market-based measures, which have for some time signaled softening rents. Moreover, rents account for over forty percent of the core CPI and carry a weight of around half that in the core PCE Deflator, the FOMC's go-to gauge of inflation. As such, despite the slightly hotter than expected increase in the headline CPI, the September data are likely to have little impact on how FOMC members are thinking about the appropriate path of the Fed funds rate, particularly given the extent to which longer-term rates have risen over the past several weeks.

The broad energy index rose by 1.5 percent in September, with retail gasoline prices up 2.1 percent on a seasonally adjusted basis. Electricity rates jumped by 1.3 percent, acting as a further push on the overall energy index, which was moderated by lower prices for residential gas service. As noted above, gasoline will likely transition to being a drag on the headline CPI in the October data given recent declines in retail prices, and notably large gasoline inventories could make that drag even more pronounced. Food prices were up 0.2 percent in September, with grocery store prices up 0.1 percent and restaurant prices up 0.4 percent. Though the year-on-year increase in grocery store prices has moderated significantly, from a peak of 13.5 percent in August 2022 to 2.4 percent in September 2023, keep in mind that it is the cumulative increase of 24.2 percent since the onset of the pandemic that is acting as a stress for many households.

Core goods prices were down by 0.4 percent in September, with a surprising 2.5 percent drop in prices for used motor vehicles a primary culprit – market based measures have shown firmer pricing, but the CPI measure of used vehicle prices lags market-based measures. That was not, however, the sole source of weakness in core goods prices, as the BLS's measure of core goods prices excluding used vehicles fell by 0.1 percent, which puts the year-on-year increase at just 1.6 percent. Apparel prices fell in September, as did prices for household furnishings and appliances. Prices for new motor vehicles rose by 0.3 percent; though it is too soon for the impacts of the UAW strike to have impacted prices for new and used vehicles, should the strike widen and persist as it seems most likely to do, that will ultimately be reflected in the CPI data in coming months.

Core services prices rose by 0.6 percent in September, the largest monthly increase since February, putting the year-on-year increase at 5.7 percent, which is the smallest such increase since July 2022. We noted in this week's *Economic Preview* that prices for discretionary services, particularly air fares, lodging, and car rentals, could be noisy in the September data. The not seasonally adjusted data were not as soft as we expected, which flowed through to the seasonally adjusted data, yielding increases of 0.3 percent for air fares and 3.7 percent for lodging rates. Also, prices for hospital care were up sharply pushing up overall medical care services costs despite the typical decline in premiums for health insurance (which, by the way, goes away starting in the October data). Still, core services inflation outside of shelter is now below 2.0 percent and should continue to slow.

