

# Consumer Price Index September 2024

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Strategy realized



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## Risks to the inflation outlook remain balanced

- While Consumer Price Index (CPI) inflation eased less than expected in September, the combination of selective consumer prudence, increased pricing sensitivity, reduced markups, moderating wage growth and cooling rent inflation should continue to drive a healthy disinflationary impulse heading into 2025.
- Headline CPI rose 0.2% month over month (m/m) in September, a tick more than expected, with energy prices plunging 1.9% and food prices up a strong 0.4%. Core CPI rose a moderate 0.3% – in line with the August gain, but firmer than the 0.2% average advance over the prior three months.
- Core commodities prices rose 0.2% – their first increase since February – as auto and apparel prices rebounded. Core services prices rose 0.4%, driven by transitory strength in medical care and transportation services as shelter costs were tied for the lowest post-pandemic gain, up only 0.2%.
- Headline CPI inflation eased 0.1 percentage points (ppt), to 2.4% year over year (y/y) – the lowest since February 2021 – while core CPI inflation rose a tick to 3.3% y/y – still near its lowest since April 2021.
- Short-term inflation dynamics remain encouraging with headline CPI inflation at 1.6% on a six-month annualized basis and 2.1% on a three-month annualized basis. Core CPI inflation remains a little hotter at 2.6% on a six-month annualized basis and 3.1% on a three-month annualized basis.
- We foresee headline CPI inflation closing the year around 2.3% and core CPI inflation just below 3% in December, but we note the risk from rising tensions in the Middle East pressuring oil and gasoline prices as well as the risk from hurricane distortions.
- We anticipate a 25 basis points (bps) rate cut in November, but stress that the economic picture will be muddled by recent hurricanes, strikes and Election Day two days before the Federal Open Market Committee (FOMC) meeting. Unless there is a notable weakening in underlying payroll growth, hours worked and the unemployment rate next month, policy gradualism will likely prevail.



## Looking into the details

**Energy prices** fell 1.9% on a 4.1% plunge in prices at the pump that was partially offset by 0.7% gain in both electricity and utility natural gas prices.

**Food prices** rose a strong 0.4% – the strongest gain since January – on higher grocery prices driven by fresh fruit (apple pies will cost more this fall!). Restaurant prices, meanwhile posted a 0.3% gain in line with their pre-pandemic trend. Grocery prices are up 1.3% y/y while restaurant prices are up 3.9% y/y.

**Core goods prices** posted their first increase since February, up 0.2%. Apparel prices rebounded 1.1% in what appears to be more of a seasonal adjustment oddity. New and used vehicle prices posted modest gains, up 0.2% and 0.3%, respectively, after multiple months of decline – nothing alarming on that front. Overall, core goods prices are 1.0% lower than a year ago and have been falling since January.

**Core services prices** showed some transitory bumpiness, up 0.4%, despite very encouraging news on the shelter cost front. Shelter costs only rose 0.2% – their smallest post-pandemic advance – as rent and owners' equivalent rent both rose 0.3% – their smallest post-pandemic advance. Hotel prices plunged 2.3%. Shelter cost inflation eased to 4.9% y/y, its lowest since February 2022.

Looking into **other core services categories**, there is no reason for inflation concern. Medical care services was a culprit for the larger-than-expected CPI advance, but it seemed to be mostly driven by a one-off increase in physicians' services cost. Auto insurance prices again advanced a strong 1.2%, but the pace of inflation eased to a still-elevated pace of 16.3% y/y. Airfare also posted a robust 3.2% monthly advance, pushing airfare inflation up to a modest 1.6% y/y.

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