Rising Gas and Shelter Costs Pressure September CPI

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The headline consumer price index (CPI) rose +0.4% in September, down from +0.6% in August but a*bove the +0.3% median forecast*. The annual CPI rate, expected to be slightly lower in September, actually held steady at +3.7%. The primary culprits last month were an unanticipated increase in housing costs and higher gasoline prices.

Core CPI (Ex food and energy) rose +0.3% for the second straight month, matching expectations. On a year-over-year basis, core CPI declined from +4.3% to +4.1%.

Overall shelter costs were up +0.6%, halting a cooling trend with a higher-than-expected gain in September. Housing costs (which fall into the service category) accounted for more than half of the annual headline increase and *70% of the core advance*. Overall food prices increased by +0.4% last month, but the food at home sub-category (groceries) was up by just +0.1%.

New vehicle prices rose +0.3%, while used vehicle prices fell -2.5% and are now -8% lower on an annual basis. Auto insurance rose +1.3% in September after a +2.4% August jump, but are still up almost +19% from a year ago.

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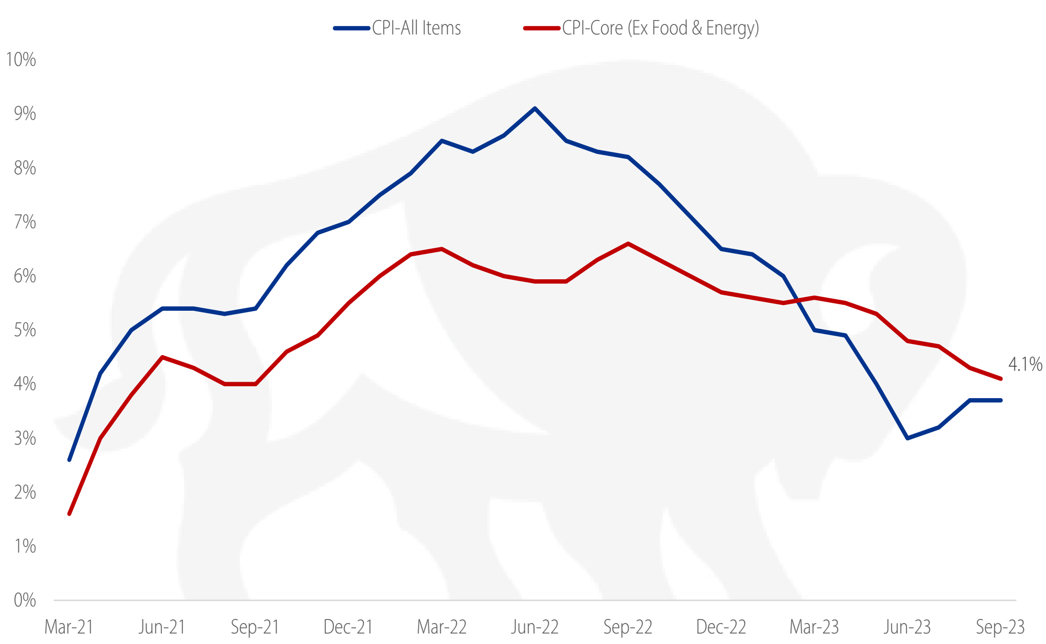
Consumer Price Index (Year-over-Year Percent Change)



Source: Bureau of Labor Statistics

The entire yield curve has sold off in early trading as the expectation for another Fed rate hike rises slightly. The futures market is currently indicating a 12% possibility of a quarter point increase on November 1st, up from 8%, and a 45% possibility of an increase sometime between now and the January meeting.

This morning's report is inconclusive, and shouldn't reroute Fed policymakers. The general trend in shelter prices is downward despite the September hiccup, and gasoline prices have already reversed course in October. Service costs, highlighted by the supercore bump, are still a bit of a problem, but assuming the economy weakens as expected this quarter, service prices should recede. The committee has granted itself patience. The Fed has likely concluded its rate hikes, but exactly when they're able to cut rates will be a lingering question.

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Yesterday afternoon, the minutes to the September FOMC meeting were released. There weren't any real surprises. Policymakers did discuss the risk of overtightening, but were in agreement that rates should remain restrictive *for some time*. Fed officials agreed that the committee should consider incoming data and "proceed carefully" with any additional policy action. The takeaway from the minutes was that discussions have become more balanced. The Fed is clearly nearing the terminal rate for the cycle.

In inflation-related news from yesterday, the producer price index (PPI) for September rose +0.5%, well above the +0.3% median forecast. This continues a recent warming trend in producer prices that has seen PPI rise at a +7.7% annual pace over the last three months. Energy prices were a major driver last month, up +3.3%, while food prices rose +0.9%. Core PPI was up a more restrained +0.3%, while PPI Ex food, energy and trade rose +0.2% for the month.

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On a year over year basis, headline PPI is increasing at a +2.2% pace, up from +0.1% just three months ago but down from a peak of +11.7% in March 2022 following the invasion of Ukraine. Core PPI has been considerably less volatile in recent months, now rising at a +2.7% annual pace, up slightly from +2.4% in June, but well below the +9.2% peak 18 months ago.

Market Indications as of 9:07 A.M. Central Time

DOW	Down -119 to 33,686 (HIGH: 36,800)
NASDAQ	Up 22 to 13,682 (HIGH: 16,057)
S&P 500	Down -3 to 4,373 (HIGH: 4,797)
1-Yr T-bill	current yield 5.43%; opening yield 5.34%
2-Yr T-note	current yield 5.07%; opening yield 4.98%
3-Yr T-note	current yield 4.83%; opening yield 4.74%
5-Yr T-note	current yield 4.66%; opening yield 4.58%
10-Yr T-note	current yield 4.64%; opening yield 4.55%
30-Yr T-bond	current yield 4.77%; opening yield 4.68%