Mixed September CPI Report Unlikely to Alter Fed Path

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2012
greg.warner@hilltopsecurities.com

The Consumer Price Index (CPI) came in a little warmer than expected in September, although based on positive bond market reaction, it appears investors may have anticipated a bit worse.

Overall CPI rose +0.2% for the third straight month, slightly above the +0.1% median forecast. On an annual basis, CPI was up +2.4%, also slightly above forecast, but down from +2.5% *to the lowest level since February 2021*. Once again, lower energy prices restrained the headline number, down -1.9% for the month and -6.8% for the year. Within the energy category, gasoline prices fell -4.1% for the month and -15.3% year-over-year. Unfortunately, food prices moved considerably higher, up +0.4%, with the increase attributed entirely to the cost of groceries.

The closely-watched shelter component, which has been a persistent driver of overall consumer prices, was surprisingly lower last month, up just +0.2% following a +0.5% August rise. According to the BLS, higher food prices and shelter costs contributed 75% to the overall increase.

Prices for both new and used vehicles rose in September, although on an annual basis, new vehicle prices are still down -1.3%, while prices for used cars and trucks are -5.1% lower. Auto insurance came in hot once again, up +1.2% for the month and +16.3% year-over-year. Influencing insurance prices is beyond the Fed's reach, but the enormous increases continue to hammer consumers.

Core CPI, which excludes food and energy, climbed +0.3%, also slightly above the +0.2% median forecast. On a year-over-year basis, core CPI crept upward from +3.2% to +3.3%.

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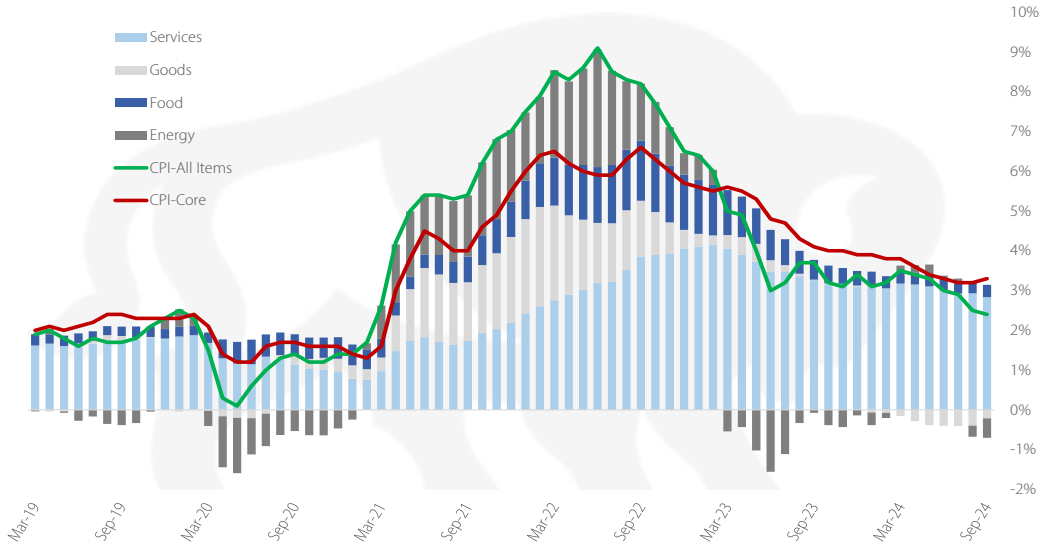
Consumer Price Index (Year-over-Year Percent Change)



Source: Bureau of Labor Statistics

Please see disclosure starting on page 2

The takeaway from the September CPI report is that price pressures may not be receding quite as quickly as expected, but the easing of shelter costs is very encouraging and bodes well for the future. So far this morning, the short end of the yield curve is rallying, not what you'd normally expect when both the monthly and annual price numbers came in above forecast.

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Nothing in this report is likely to alter the Fed's policy path. The lowest annual pace of consumer inflation in three-and-a-half years should support a quarter point cut in November.

In other news from this morning, initial jobless claims jumped to the highest level since August 2023. Although on the surface this rise in weekly unemployment filings seems to validate Fed labor market concerns, the increase is concentrated in states where Hurricane Helene has displaced workers. The effects of Hurricane Helene and Milton promise to distort the economic data for the next several months.

Market Indications as of 9:29 A.M. Central Time

DOW	Down -108 to 42,404 (HIGH: 42,512)
NASDAQ	Down -35 to 18,257 (HIGH: 18,647)
S&P 500	Down -11 to 5,781 (HIGH: 5,792)
1-Yr T-bill	current yield 4.21%; opening yield 4.23%
2-Yr T-note	current yield 3.99%; opening yield 4.02%
3-Yr T-note	current yield 3.90%; opening yield 3.93%
5-Yr T-note	current yield 3.91%; opening yield 3.92%
10-Yr T-note	current yield 4.10%; opening yield 4.07%
30-Yr T-bond	current yield 4.39%; opening yield 4.34%

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