Fed Easing Now Certain as Consumer Inflation Eases

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The September Consumer Price Index (CPI) wasn't as warm as expected, adding certainty to next week's widely-expected quarter point rate cut and solidifying the chances of a reduction in December. The overall rate of consumer inflation increased +0.3% last month, below both the +0.4% median forecast and the +0.4% August gain. On a year-over-year basis, overall CPI climbed from +2.9% to +3.0% but was slightly cooler than the +3.1% forecast.

A +4.1% rise in the price of gasoline was the largest contributor to the monthly gain, although pump prices are still -0.5% lower on an annual basis. Overall food prices climbed just +0.2% following an oversized +0.5% increase in August. The food-at-home index (groceries) rose +0.3% last month, easing back from a +0.6% increase in the prior period, while the food-away-from-home index (restaurants) rose a scant +0.1%.

Within the grocery category, egg prices fell -4.7% for the month and -1.3% year-over-year. Milk was down -0.2%, while up +2.1% over the past 12 months. Beef and Veal increased +1.4% in September and +14.7% for the year, while chicken fell -0.6%.

Fresh fruits and vegetables dropped -0.2%, with a +0.7% tariff-tinted increase in tomato prices more than offset by a -0.5% decrease in fresh fruit and other fresh vegetables. Despite evidence to the contrary, coffee prices actually fell -0.1% last month. Although still +18.9% higher than a year ago, the September java decline was quite a surprise given the assumed tariff impact.

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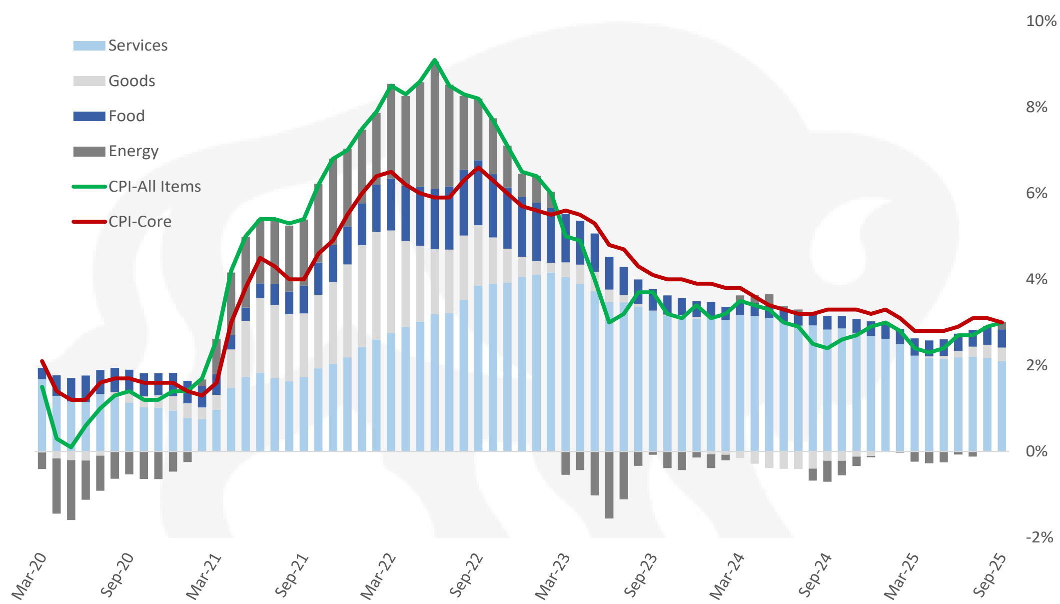
Consumer Price Index (Year-over-Year Percent Change)



Source: Bureau of Labor Statistics

Footwear and apparel, seemingly vulnerable to tariffs, continue to show very little price pressure. Although both categories rose more than expected in September, shoe prices are up just +1.3% from a year ago, while clothing is down -0.1%.

Shelter costs, making up 35% of the index, cooled from a +0.4% gain in August to just +0.2% in September. Auto prices were also well contained, with the cost of a new vehicle up a mild +0.2% while costs for used cars and trucks fell -0.4%. On a related note, auto insurance dropped -0.4% in September after an unchanged reading in August. Airfares continued to climb but at a lesser pace, up +2.7% after rising +5.9% in the previous month.

Core CPI, which excludes food and energy, rose by just +0.2%, following +0.3% gains in July and August. Bloomberg reported that just two of 76 economists surveyed had correctly predicted the +0.2% September core increase. On an annual basis, the core slipped from +3.1% to +3.0%, also below forecast.

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The overall report was surprisingly well contained, with virtually all of the high profile food categories (eggs, coffee, oranges) falling during the month. From the Fed's perspective, today's release should provide a green light to focus solely on their employment mandate.

Operations at the Bureau of Labor Statistics (BLS) were halted on October 1, delaying the release of dozens of key economic reports. However, analysts were ordered back to work last week to prepare the September CPI report, which is used to calculate the annual cost-of-living adjustment (COLA) for Social Security recipients. Since the cutoff date for collection of October data has now passed, the date of the next CPI report is unknowable.

Market Indications as of 9:37 A.M. Central Time

DOW	Up 339 to 47,073 (NEW HIGH)
NASDAQ	Up 240 to 23,182 (NEW HIGH)
S&P 500	UP 57 to 6,795 (NEW HIGH)
1-Yr T-bill	current yield 3.58%; opening yield 3.57%
2-Yr T-note	current yield 3.47%; opening yield 3.49%
3-Yr T-note	current yield 3.47%; opening yield 3.49%
5-Yr T-note	current yield 3.59%; opening yield 3.61%
10-Yr T-note	current yield 3.99%; opening yield 4.01%
30-Yr T-bond	current yield 4.59%; opening yield 4.59%