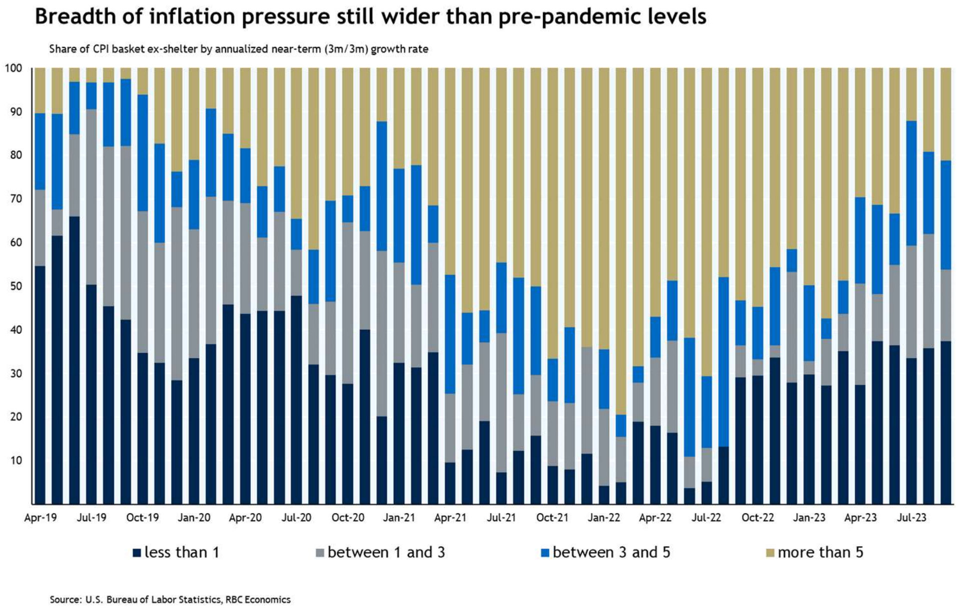
Economic Update

October 12, 2023

U.S. inflation pressures ticked higher in September

- The substantial easing in U.S. inflation pressures in recent months took a step back in September with year-over-year price growth holding steady at a 3.7% rate (in line with August but up from 3.2% in July and 3.0% in June.) That was slightly above market expectations ahead of the report.



- Energy prices have driven much of the reacceleration in price growth as oil prices rose over the summer. Gasoline prices were up another 2% month-over-month in September to add to a 10.6% jump in August.
- Price growth for food continued to slow in September (+3.7% year-over-year) and core (ex-food & energy) price growth edged down further to 4.1% year-over-year.
- The 0.3% month-over-month increase in core prices was still larger than 'normal' but more than half of the increase came from a 0.6% surge in the bulky owner's equivalent rent component.
- Other details weren't as reassuring. The Fed's 'supercore' (core services excluding home rent component) jumped 0.6% month-over-month, bringing the most recent three month annualized growth rate to 4.8% from 2.2% in August. A jump in hospital prices explains part of the upside surprise in September, but that ended a string of sub-pre-pandemic readings for that measure that started in June.

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- And by our count the share of the CPI basket excluding the shelter component seeing price growth above a 3% annualized rate over the last three months edged up to 46% from 38% in August. Still, that is down sharply from 64% a year ago.

- **Bottom line:** Fed policymakers are wary of a reacceleration in price growth with the economy still running exceptionally hot. The September data follows a string of downside surprises that left a substantially softer-than-expected broader price growth backdrop over the summer - and the upside surprise in the latest month shouldn't be enough to change that broader narrative. But the Fed's pause in interest rate hikes is really a function of soft inflation prints allowing policymakers patience to wait for an exceptionally strong (and probably overheating) growth and labour market backdrop to cool. We don't expect additional interest rate hikes this year will be necessary, but the Fed is still willing to respond with higher interest rates were the inflation backdrop to show further signs of reacceleration.

U.S. CPI Growth

	Jun-23	Jul-23	Aug-23	Sep-23
	month-over-month percent change			
Headline CPI	0.2	0.2	0.6	0.4
Food prices	0.1	0.2	0.2	0.2
Energy prices	0.6	0.1	5.6	1.5
Core CPI	0.2	0.2	0.3	0.3
	year-over-year percent change			
Headline CPI	3.0	3.2	3.7	3.7
Food prices	5.7	4.9	4.3	3.7
Energy prices	-16.7	-12.5	-3.6	-0.5
Core CPI	4.8	4.7	4.3	4.1

Source: Bureau of Labor Statistics, RBC Economics Research