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Economic Research

Economic Briefing

# US inflation above expectations

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Dr. Christoph Balz  
Bernd Weidensteiner

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**US consumer prices rose by 0.2% in September from August, excluding energy and food by 0.3%. This is a tenth more than expected in each case. The data do not argue against further interest rate cuts by the Federal Reserve at its next meeting in November and beyond. But the big step of 50 basis points in September is likely to remain an exception.**

## The data

US consumer prices rose by 0.2% in September compared to the previous month. The year-on-year rate fell from 2.5% to 2.4%. The more important core rate, which excludes the volatile prices of energy and food, was 0.3% compared to the previous month. The year-on-year rate here rose from 3.2% to 3.3%. The data were slightly higher than expected in each case.

## The details

US consumer prices rose more sharply than expected in September compared to the previous month. This was partly due to a surprisingly high 0.4% increase in food prices, which offset part of the decline in gasoline prices. However, the rather strong increase in prices excluding energy and food (core rate), which tends to provide more information about the trend, was more important.

The core rate was 0.3%, the same as in August, while only 0.2% is compatible with the Fed's inflation target (2% for the deflator of personal consumption expenditures (PCE), which on average is lower than consumer price inflation) (Chart 1).

This time, the inflation drivers were goods prices, which rose slightly by 0.2% instead of the usual decline. As in August, core services rose by 0.4% compared to the previous month.

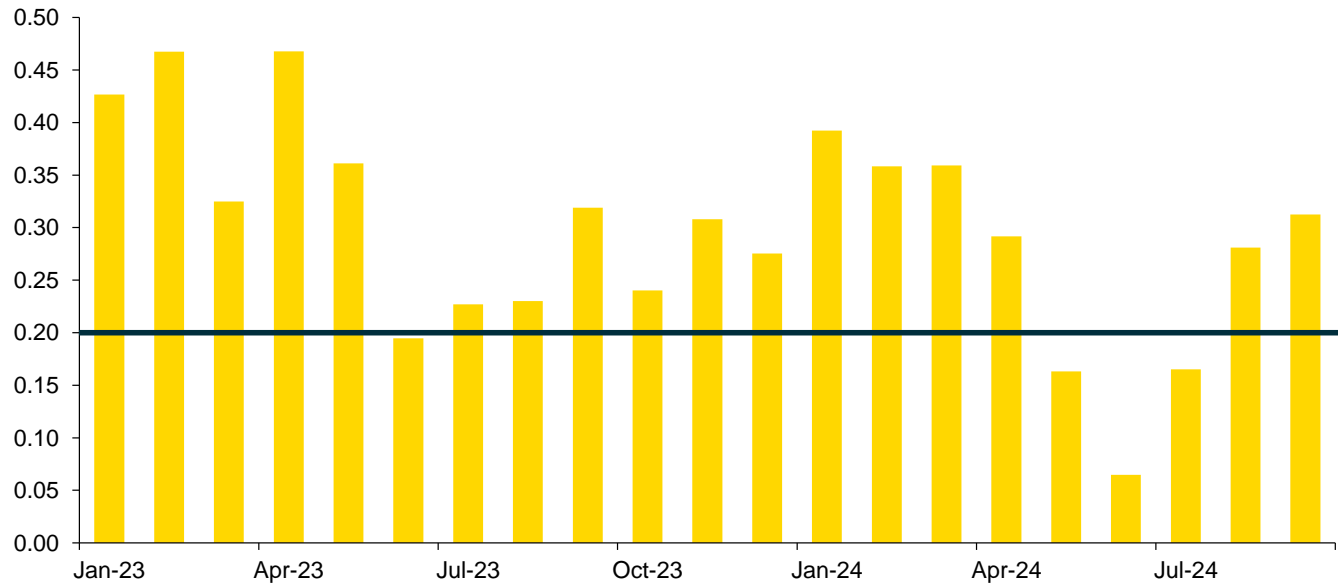
However, prices that fluctuate strongly from month to month, such as those for airline tickets (+3.2%), have risen in particular. This puts the increase of services prices into perspective. By contrast, rents and imputed rents for owner-occupied homes, the most important expenditure item, have noticeably slowed. If this is confirmed in the coming months, the core rate should be somewhat lower again. In principle, however, the figures confirm our assessment that inflation is likely to settle at an excessively high level in the longer term.

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**Chart 1 - Underlying inflation increased again**

Consumer prices excluding energy and food, month-on-month change in %. Horizontal line: monthly rate of 0.2% which is approximately consistent with the Fed's 2% annual target which refers to the PCE deflator



Source: BLS, S&P Global, Commerzbank Research

**Fed: no more big cuts**

The better-than-expected labor market data for September have already removed the basis for speculation about a possible further big rate cut by the Fed. Now, the further decline in inflation also appears to have stalled. For the second month in a row, the consumer price index has surprised with a fairly strong rise in the core rate. This is not reflected one-to-one in the personal consumption expenditure (PCE) deflator, the Fed's preferred measure of inflation. Some prices have risen very sharply for which the PCE deflator uses a different data source (airline tickets) or which are weighted significantly lower in the PCE deflator (car insurance).

However, the optimism regarding a continuous easing of price pressure could be dampened somewhat. The data environment therefore also argues for a cautious approach by the Fed. It will therefore not deliver another jumbo rate cut of 50 basis points. And even a small move of 25 bp may now no longer a foregone conclusion in the eyes of market participants. However, we are sticking to our forecast of a 25 bp cut at the November meeting. After all, the easing in service prices has continued. These will also set the direction in the medium term.



## Analysts

### Dr. Christoph Balz

Senior Economist  
+49 69 9353 45592  
christoph.balz@commerzbank.com

### Bernd Weidensteiner

Senior Economist  
+49 69 9353 45625  
bernd.weidensteiner@commerzbank.com

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#### Commerzbank Offices

##### Frankfurt

Commerzbank AG  
DLZ - Gebäude 2,  
Händlerhaus  
Mainzer Landstraße 153  
60327 Frankfurt  
Tel: + 49 69 136 21200

##### London

Commerzbank AG  
PO BOX 52715  
30 Gresham Street  
London, EC2P 2XY  
Tel: + 44 207 623 8000

##### New York

Commerz Markets LLC  
225 Liberty Street, 32nd  
floor,  
New York,  
NY 10281-1050  
Tel: + 1 212 703 4000

##### Singapore

Commerzbank AG  
128 Beach Road  
#17-01 Guoco Midtown  
Singapore 189773  
Tel: +65 631 10000