USA: Core CPI Above Expectations; Estimating 0.32% for September Core PCE

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BOTTOM LINE: Core CPI increased by 0.33% in September, above expectations. The upside surprise was partly driven by a firmer-than-expected reading in the shelter category, with OER increasing by 0.35% month-over-month and contributing to the core by about 5bp more than we expected. The strength in OER was concentrated in the Midwest (+0.68%, SA by GS), well above our estimate of the underlying trend in the OER category. The travel services, autos, and recreation goods categories were also firm. Based on details in the CPI report, we estimate that the core PCE price index rose 0.32% in September (vs. our expectation of 0.20% before the CPI release), corresponding to a year-over-year rate of +3.09%. The upward revision to our September core PCE forecast largely reflects the upside surprise to our OER, hotels, and recreation forecasts.

KEY NUMBERS:

CPI (MoM) +0.65% for September vs. GS +0.59%, median forecast +0.6%, prior +0.40%

Core CPI (MoM) +0.33% for September vs. GS +0.24%, median forecast +0.2%, prior +0.29%

CPI (YoY) +3.74% for September vs. GS +3.70%, median forecast +3.6%, prior +3.40%

Core CPI (YoY) +2.56% for September vs. GS +2.46%, median forecast +2.5%, prior +2.45%

MAIN POINTS:

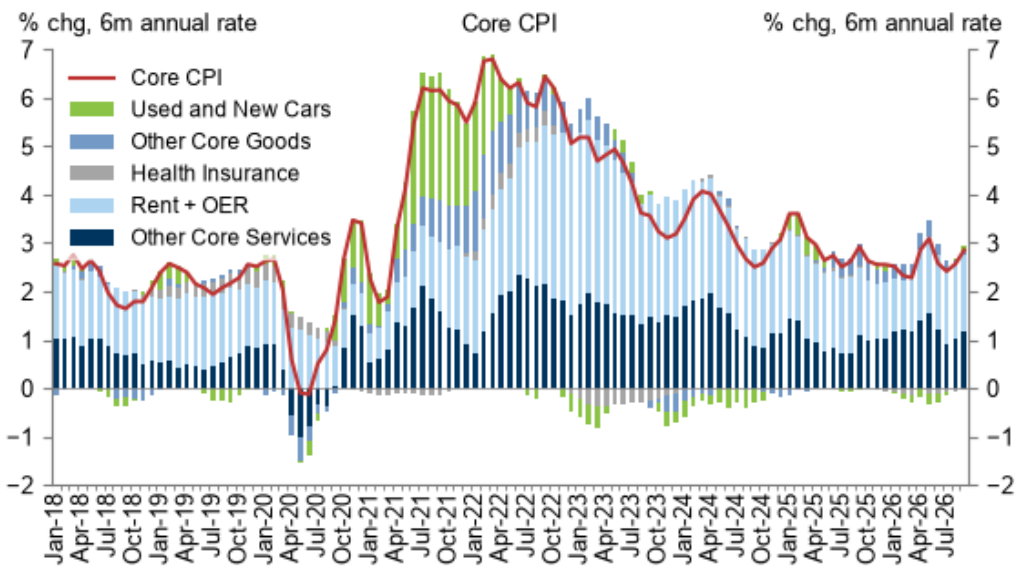
1. Core CPI increased by 0.33% in September, above expectations. The upside surprise was partly driven by a firmer-than-expected reading in the shelter category. OER increased by 0.35% month-over-month, contributing to the core by 12bp, about 5bp more than we expected. The strength was concentrated in the Midwest, where OER rose 0.68% (SA by GS), while readings were roughly in line with our estimate of the underlying trend in the Northeast (+0.39%), West (+0.25%), and South (+0.14%). Rent increased by 0.25% month-over-month, contributing about 3bp to the core. Travel services were also firm, with lodging and airfares increasing by 2.0% and 1.2% month-over-month, respectively, together contributing 6bp to the core. New and used cars contributed 3bp to the core, consistent with our expectation for a pickup in autos inflation. Finally, the recreation category was firm as well, driven by a large increase in toys and games (+4.2%)—a category that has been particularly volatile in recent months—contributing about 3bp to the core. Headline CPI increased by 0.65% month-over-month, roughly in line with

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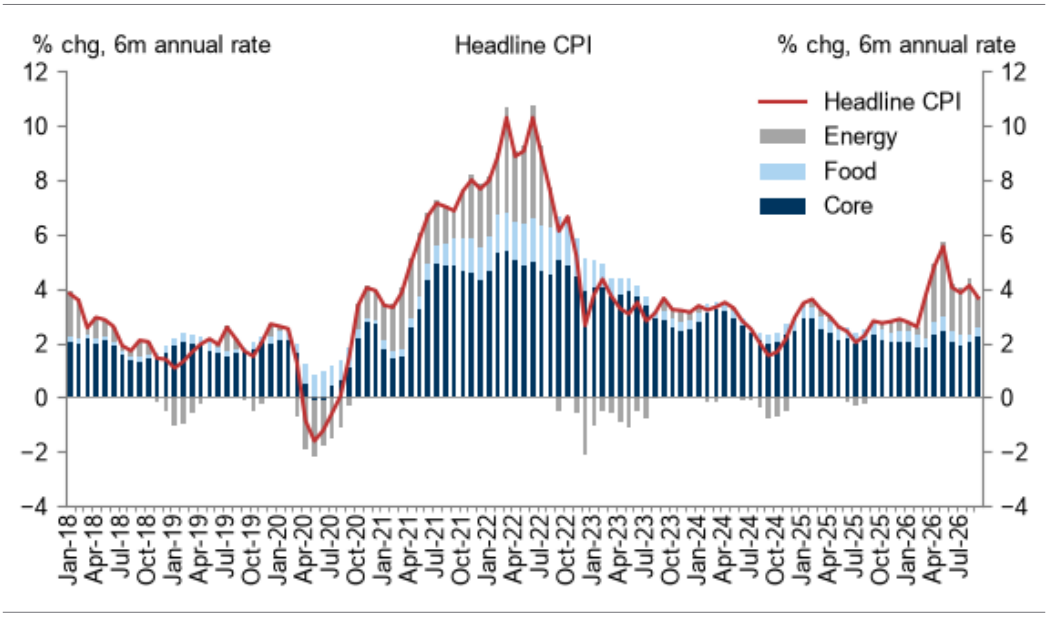
expectations, reflecting higher energy prices (+5.2%) driven by the re-escalation of the conflict in Iran.

2. Based on details in the CPI report, we estimate that the core PCE price index rose 0.32% in September (vs. our expectation of 0.20% before the CPI release), corresponding to a year-over-year rate of +3.09%. The upward revision to our September core PCE forecast largely reflects the upside surprise to our OER, hotels, and recreation forecasts. Additionally, we expect that the headline PCE price index increased 0.49% in September, and increased 3.62% from a year earlier.

3. This morning's CPI report and its implications for the September core PCE reading raise the probability of an October hike. We continue to expect that the Fed will deliver the second hike in December, but tomorrow's PPI report and Chairman Warsh's speech at the IMF annual meetings in Bangkok later this week will provide additional information on the timing of the second hike.



Source: Goldman Sachs Global Investment Research, Department of Labor



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