MONDAY ECONOMIC REPORT

Core Consumer Inflation Accelerated Once Again, Highest Since August 1982

By Chad Moutray – October 17, 2022

The Weekly Toplines

- Consumer prices rose 0.4% in September. Excluding food and energy, core consumer prices increased 0.6% in September. The Consumer Price Index has risen 8.2% over the past 12 months. At the same time, core inflation (which excludes food and energy) increased 6.7% year-over-year in September, up from 6.3% in August and the highest since August 1982.

- Overall, pricing pressures for consumers remain very elevated, and perhaps more worrisome, core inflation strengthened in September instead of moderating. This suggests that solid price growth has continued unabated (at least for now), particularly for food, housing, new vehicles and transportation services. The current forecast is for year-over-year growth in the CPI to be 7.5% at year's end, with core inflation at 6.0%.

- Meanwhile, producer prices for final demand goods and services rose 0.4% in September following declines in both July and August. Over the past 12 months, producer prices for final demand goods and services have risen 8.5%, the lowest in 13 months but still highly elevated. Core producer prices increased 5.6% year-over-year, the same pace as in August and continuing to decelerate since hitting a record 7.1% in March.

- Manufacturers cite rising raw material costs as a top challenge, along with supply chain and workforce challenges, with the very significant pace of price growth in this data over the past year helping to explain why.

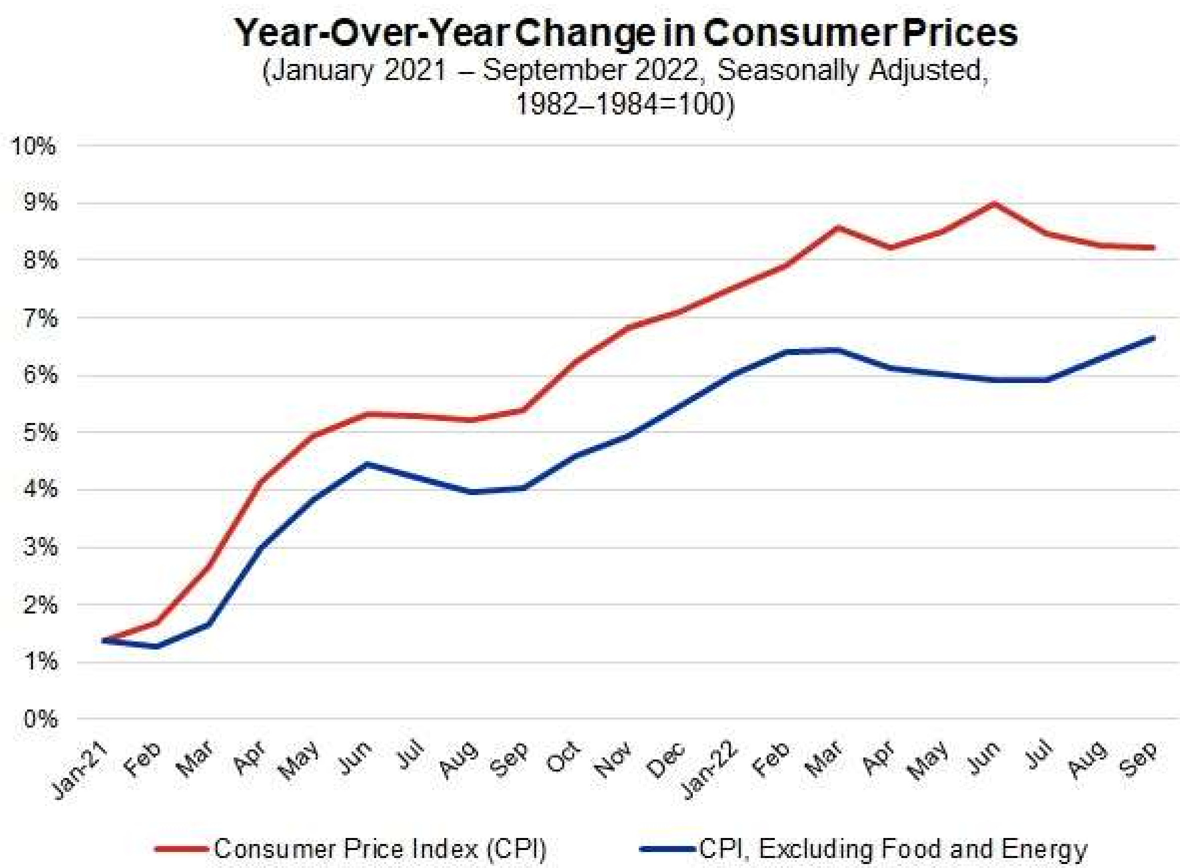
- For its part, the Federal Reserve intends to stay aggressive in its attempts to wring inflation out of the U.S. economy, with another 75-basis-point rate hike expected at its Nov. 1–2 meeting. If so, it would be the fourth consecutive meeting with such an extraordinary rate hike. A 50-basis-point increase is anticipated for the Dec. 13–14 meeting.

- The Index of Consumer Sentiment has increased for four straight months but is not far from June's record low, according to preliminary data from the University of Michigan and Thomson Reuters. Americans felt more upbeat in their assessments of the current economy, but their expectations for future conditions were more pessimistic in October.

- Despite some improvement from June, consumer confidence remains very low, with ongoing worries about inflation, the economic outlook and declines in financial markets. As a result, Americans continue to be more selective and anxious, with consumers slowing or reducing their spending in some areas.

- Indeed, [retail sales] were flat in September and were essentially unchanged in the third quarter, decelerating from 2.1% growth in the second quarter. Excluding automobiles and gasoline, retail sales increased 0.3% in September, slowing from 0.6% in August. In the third quarter, spending at retail companies increased 1.1%, down from 2.4% in the second quarter.

- At the same time, it is important to note that the slower growth in retail sales follows solid consumer sales spending activity over the past year. In fact, retail spending has risen 8.2% since September 2021, or 7.5% with motor vehicles and gasoline excluded.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

Monday, Oct. 10
None

Tuesday, Oct. 11
NFIB Small Business Survey

Wednesday, Oct. 12
Producer Price Index

This Week's Indicators:

Monday, Oct. 17
New York Fed Manufacturing Survey

Tuesday, Oct. 18
Industrial Production
NAHB Housing Market Index

Wednesday, Oct. 19
Housing Starts and Permits

Thursday, Oct. 13
Consumer Price Index
Weekly Initial Unemployment Claims

Friday, Oct. 14
Retail Sales
University of Michigan Consumer Sentiment (Preliminary)

Thursday, Oct. 20
Conference Board Leading Indicators
Existing Home Sales
Philadelphia Fed Manufacturing Survey
Weekly Initial Unemployment Claims

Friday, Oct. 21
State Employment Report

Deeper Dive

- **Consumer Price Index:** Consumer prices rose 0.4% in September, strengthening after weak growth in the prior two months. Energy costs fell for the third straight month, down 2.1% in September, with gasoline prices declining 4.9%. Gasoline prices have started to rise again, which should lead to higher costs in the next CPI reading. At the same time, food prices continued to grow solidly, up 0.8% for the month. Over the past 12 months, food and energy costs have jumped 11.2% and 19.8%, respectively, even with the easing in energy costs in the past three months.

  Excluding food and energy, core consumer prices rose 0.6% in September, the same pace as in August. Prices for transportation services (up 1.9%), medical care services (up 1.0%), new vehicles (up 0.7%), shelter (up 0.7%) and household furnishings and supplies (up 0.6%) increased in September. In contrast, prices for used cars and trucks (down 1.1%), apparel (down 0.3%) and medical care commodities (down 0.1%) declined for the month.

The Consumer Price Index has risen 8.2% over the past 12 months, the same pace as in August but down from 9.1% and 8.5% in June and July, respectively. The June reading marked the fastest pace since November 1981. At the same time, core inflation (which excludes food and energy) increased 6.7% year-over-year in September, up from 6.3% in August and the highest since August 1982.

Overall, pricing pressures for consumers remain very elevated, and perhaps more worrisome, core inflation strengthened in September instead of moderating. This suggests that solid price growth has continued unabated (at least for now), particularly for food, housing, new vehicles and transportation services. The current forecast is for year-over-year growth in the CPI to be 7.5% at year's end, with core inflation at 6.0%.

For its part, the Federal Reserve intends to stay aggressive in its attempts to wring inflation out of the U.S. economy, with another 75-basis-point rate hike expected at its Nov. 1–2 meeting. If so, it would be the fourth consecutive meeting with such an extraordinary rate hike. A 50-basis-point increase is anticipated for the Dec. 13–14 meeting.

- **NFIB Small Business Survey:** The Small Business Optimism Index edged up from 91.8 in August to 92.1 in September, rebounding for the third straight month from June's reading (89.5), which was the lowest since March 2013. These data continue to reflect a weak small business sector, which remains challenged by inflation, supply chain issues, workforce shortages and economic uncertainties. The net percentage of respondents saying general business conditions would be better six months from now was -44% in September, down from -42% in August.

  Respondents cited inflation as the top "single most important problem," followed by difficulties in obtaining enough qualified labor. Inflationary pressures have decelerated but remain elevated. The net percentage of respondents reporting higher prices today than three months ago pulled back from 53% in August to 51% in September. At the same time, the net percentage planning a price increase over the next three months inched down from 32% to 31%.

  The labor market remained solid overall. The percentage of respondents suggesting they had job openings they were unable to fill declined from 49% to 46%. In addition, the percentage of respondents citing few or no qualified applicants for job openings was unchanged at 57%. Finally, the net percentage of respondents planning to increase hiring over the next three months rose from 21% to 23%. Meanwhile, the percentage of respondents suggesting that they made a capital expenditure in the past six months increased from 52% to 56%, the highest reading since March.

- **Producer Price Index:** Producer prices for final demand goods and services rose 0.4% in September following declines in both July and August. Producer prices for final demand goods also increased 0.4% in September. After decreasing sharply in the two prior months, energy prices rose 0.7% in September, and food costs increased 1.2%. Along those lines, food and energy costs have soared 11.9% and 24.2% year-over-year, respectively. Excluding food and energy, producer prices for final demand goods were flat in September. Meanwhile, producer prices for final demand services increased 0.4% in September.

Over the past 12 months, producer prices for final demand goods and services have risen 8.5%, down from 8.7% in August and the lowest in 13 months. Core producer prices increased 5.6% year-over-year, the same pace as in August and continuing to decelerate since hitting a record 7.1% in March.

These data will likely provide mixed comfort. On the one hand, it is encouraging to see some deceleration in these measures, but even with some easing, raw material costs continue to rise at very elevated levels. Indeed, manufacturers cite rising raw material costs as a top challenge, along with supply chain and workforce challenges, with the very significant pace of price growth in this data over the past year helping to explain why.

- **Retail Sales:** Retail sales were flat in September, easing from a 0.4% gain in August. More importantly, retail spending was essentially unchanged in the third quarter, decelerating from 2.1% growth in the second quarter. Excluding automobiles and gasoline, retail sales increased 0.3% in September, slowing from 0.6% in August. In the third quarter, spending at retail companies increased 1.1%, down from 2.4% in the second quarter.

  Overall, Americans continue to be more selective and anxious, with consumers slowing or reducing their spending in some areas on concerns about inflation and the economic outlook. At the same time, it is important to note that the slower growth in retail sales follows solid consumer sales spending activity over the past year. In fact, retail spending has risen 8.2% since September 2021, or 7.5% with motor vehicles and gasoline excluded.

  In September, the underlying data were mixed. Retail sales increased for department stores (up 1.3%), clothing and accessory stores (up 0.5%), health and personal care stores (up 0.5%), food services and drinking places (up 0.5%), nonstore retailers (up 0.5%) and food and beverage stores (up 0.4%). In contrast, spending weakened at miscellaneous store retailers (down 2.5%), gasoline stations (down 1.4%), electronics and appliance stores (down 0.8%), furniture and home furnishing stores (down 0.7%), sporting goods and hobby stores (down 0.7%), building material and garden supply stores (down 0.4%) and motor vehicle and parts dealers (down 0.4%).

- **University of Michigan Consumer Sentiment (Preliminary):** After dropping to a record low in June (50.0), the Index of Consumer Sentiment has risen for four straight months, up from 58.6 in September to 59.8 in October, according to preliminary data from the University of Michigan and Thomson Reuters. Americans felt more upbeat in their assessments of the current economy, but their expectations for future conditions were more pessimistic in October. Despite some improvement from June, consumer confidence remains very low, with ongoing worries about inflation, the economic outlook and declines in financial markets. Final data will be released on Oct. 28.

- **Weekly Initial Unemployment Claims:** The week ending Oct. 8 saw 228,000 initial unemployment claims, up from 219,000 for the week ending Oct. 1. In addition, the week ending Oct. 1 saw 1,368,000 continuing claims, up from 1,365,000 for the week ending Sept. 24. While both measures have increased for two consecutive weeks, the labor market remains solid, despite challenges in the economy overall.

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