ECONOMIC NEWS

United States: Core Inflation Rises Faster than Expected Again

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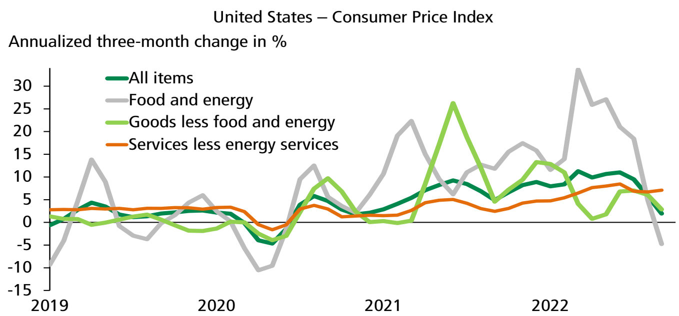
HIGHLIGHTS

- The US consumer price index (CPI) rose 0.4% in September after fairly flat readings in August (0.1%) and July (0.0%).
- Energy prices fell 2.1%, driven by a 4.9% drop in the gasoline index and a 2.7% dip in fuel oil. Food prices increased 0.8%, the same as in August.
- Core CPI, which strips out food and energy, rose 0.6% in September, again mirroring August's print.
- The all items index increased 8.2% for the 12 months ending September, less than the 8.3% advance in August. Meanwhile, core inflation rose from 6.3% to 6.6%, its highest level since August 1982.

GRAPH
Services are now the main factor driving US inflation



Sources: U.S. Census Bureau and Desjardins Economic Studies

COMMENTS

This US CPI print is disappointing. The all items index and core inflation less food and energy both came in higher than expected. The 0.4% rise in the all items index is double what was forecast and contrasts with the small gains seen in the last two months. Given that energy prices fell once more this month and the food index rose by the same amount as in August, core CPI is largely to blame. Its 0.6% rise suggests that inflationary pressure is far from easing.

However, we did get a slight reprieve on the goods side (less food and energy), where prices were flat throughout September for the first time since March. Prices of used cars and trucks, apparel and appliances also fell. As such, services less energy services—which were up 0.8% in September, the biggest monthly increase since June 1982—were the main factor behind the CPI's strength. The shelter index remained strong at 0.7%, while transportation services and medical care services both surged.

IMPLICATIONS

Inflationary pressure in the United States remains acute. There was relief in certain areas on the goods side, but others, which are more deeply rooted in the US economy, impacted services. This further complicates the Federal Reserve's task of bringing inflation back down towards its target. As such, it will have to continue aggressively tightening its monetary policy.