Economics

Core US Inflation Rises to 40-Year High, Securing Big Fed Hike

- Prices excluding food and energy increased 6.6% from year ago
- Shelter, food and medical care contribute most to broad rise



Core US Inflation Climbs to Highest Since 1982

By Reade Pickert
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A closely watched measure of US consumer prices rose by more than forecast to a 40-year high in September, pressuring the Federal Reserve to raise interest rates even more aggressively to stamp out persistent inflation.

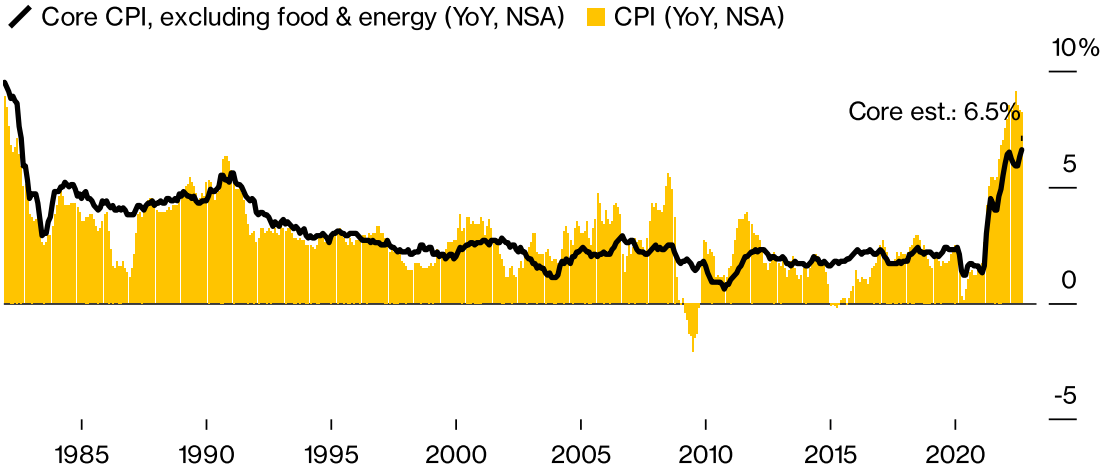
The core consumer price index, which excludes food and energy, increased 6.6% from a year ago, the highest level since 1982, Labor Department data

showed Thursday. From a month earlier, the core CPI climbed 0.6% for a second month.

The overall CPI increased 0.4% last month, and was up 8.2% from a year earlier.

Price Pressures Climb

US core inflation advanced to the highest since 1982 in September



Source: Bureau of Labor Statistics

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The advance was broad based. Shelter, food and medical care indexes were the largest of "many contributors," the report said. Prices for gasoline and used cars declined.

On the heels of a solid jobs report last week, the inflation data likely cement an additional 75-basis point interest rate hike at the Fed's November policy meeting and spurred speculation for a fifth-straight increase of that size in December. Traders also priced in a higher peak Fed rate for next year.

US stocks opened lower and Treasury yields surged, with the 30-year rate briefly hitting 4%, the highest since 2011. The median forecasts in a Bloomberg survey of economists had called for a 0.4% monthly rise in the core and a 0.2% gain in the overall measure.

The report stresses how high inflation has broadened across the economy, eroding Americans' paychecks and forcing many to rely on savings and credit cards to keep up. While consumer price growth is expected to moderate in the coming months, it'll be a slow trek down to the Fed's goal.

Policy makers have responded with the most aggressive tightening campaign since the 1980s, but so far, the labor market and consumer demand have remained resilient. The unemployment rate returned to a five-decade low in September, and businesses continue to raise pay to attract and retain the employees needed to meet household demand.

The CPI report is the last one before next month's US midterm elections and poses fresh challenges to President Joe Biden and Democrats as they seek to retain thin congressional majorities. Already, the surge in inflation has posed a serious threat to those prospects.

Housing Costs

Shelter costs -- which are the biggest services' component and make up about a third of the overall CPI index -- rose 0.7% for a second month. Both rent of shelter and owners' equivalent rent were up 6.7% on an annual basis, the most on record.

Economists see the housing components of the report as being elevated for quite some time, given the lag between real-time changes in rents and home prices and when those are reflected in Labor Department data. Bloomberg Economics doesn't expect year-over-year rates for the major shelter components to peak until well into the second half of next year .

Even when removing rent of shelter, services inflation still rose at a record annual pace, underscoring the breadth and depth of price pressures.

- Food costs rose 0.8% for a second month and were 11.2% higher from a year ago
- The food at employee sites and schools index rose a record 44.9% from the prior month, reflecting the expiration of some free school lunch programs

- Used car prices dropped for a third month, while new car prices continued to rise at hefty clip
- Airfares climbed. While gasoline prices subsided in September, they've since started climbing again
- Americans also experienced higher prices for utilities like natural gas and electricity in the month

While the Fed bases its 2% target on a separate inflation measure from the Commerce Department -- the personal consumption expenditures price index -- the CPI is closely watched by policy makers, traders and the public. Given the volatility of food and energy prices, the core index is considered a more reliable barometer of underlying inflation.

Geopolitical developments could also keep inflation elevated. OPEC+ recently announced oil production cuts, and a potential gasoline export ban by the Biden administration could backfire with higher pump prices.

The Russia-Ukraine war continues to disrupt supplies of commodities like wheat, while the White House is also considering a ban on Russian aluminum -- a key component in cars and iPhones -- in response to the country's military escalation in Ukraine.

What Bloomberg Economics Says...

"What's really at play in the September CPI is the December FOMC meeting, and the news is not good: The higher-than-expected CPI print will make it difficult for the Fed to slow down to a 50-basis-point hike at its last meeting of the year, as it indicated in the latest dot plot that it wants to do."

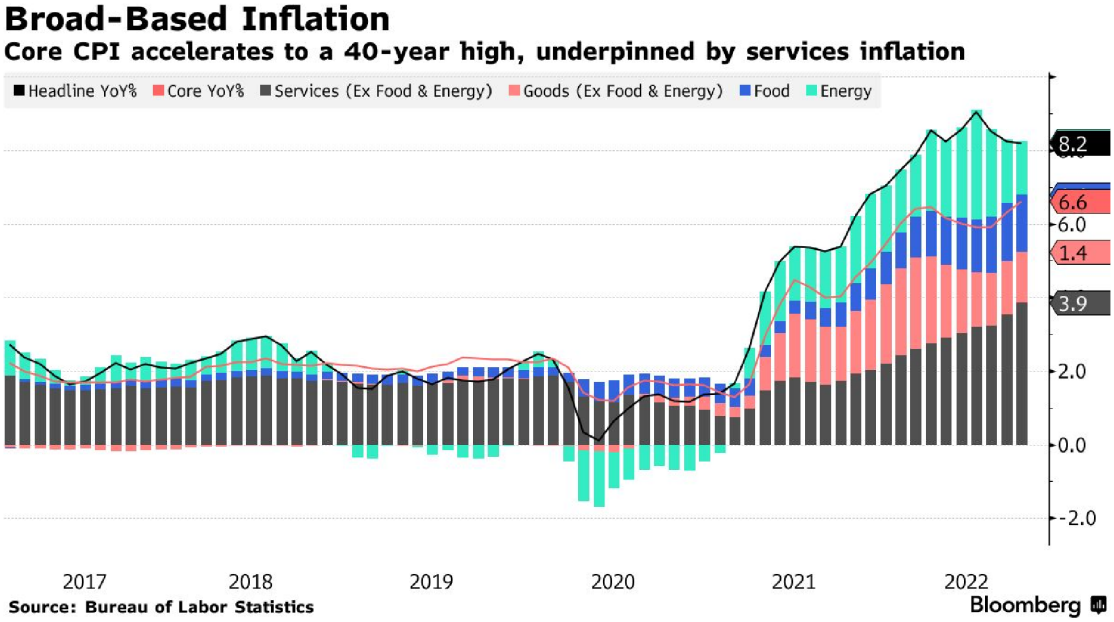
--Anna Wong and Andrew Husby, economists

For the full note, click here

Fed officials have repeatedly emphasized in recent weeks the need to get inflation under control, even if that means higher unemployment and a recession. In minutes from their September meeting released Wednesday,

many policy makers emphasized "the cost of taking too little action to bring down inflation likely outweighed the cost of taking too much action."

Central banks' determination to crush inflation, in the US and abroad, has prompted a deterioration in the economic outlook globally. Excluding the unprecedented falloff in 2020 due to the coronavirus pandemic, the IMF expects economic growth to slow to the weakest level since 2009, in the wake of the global financial crisis.



Excluding food and energy, the cost of goods was unchanged from August. Services prices less energy advanced by the most since 1990 on a monthly basis. Changing consumer preferences are underpinning services inflation and have helped ease demand for goods. Meantime, a strong dollar is diminishing foreign demand for US-made products.

Prices paid to US producers rose more than expected in September, driven in large part by services costs, Labor Department data showed Wednesday, likely portending ongoing price pressures for consumer prices for services. Producer prices for food and energy also rose.

A separate report Thursday emphasized how inflation is depressing workers' purchasing power. Real average hourly earnings dropped in

September and were down 3% from a year earlier, elongating a string of declines dating back to April 2021.

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– With assistance from Chris Middleton, Liz Capo McCormick, and Sophie Caronello

(Updates with context around midterm elections)

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