Making Sense

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September's Consumer Price Index:

Inflation Report Unlikely to Change Fed's Course

In Brief:

Takeaways from September's consumer price index:

- Headline inflation (year-over-year): **3.7%**
- Core inflation (year-over-year): **4.1%**

What does it mean for you?

- Consumer inflation remains stubbornly high.
- Today's report is unlikely to change the Fed's view: inflation has improved but remains above their 2% target.

What to watch:

- Watch the Fed's next rate decision on November 1st.
- The Fed will continue monitoring economic data as well as developing geopolitical events.
- First Citizens Wealth Management will provide an in-depth look at markets & the economy on the next [Making Sense Market Update](#).

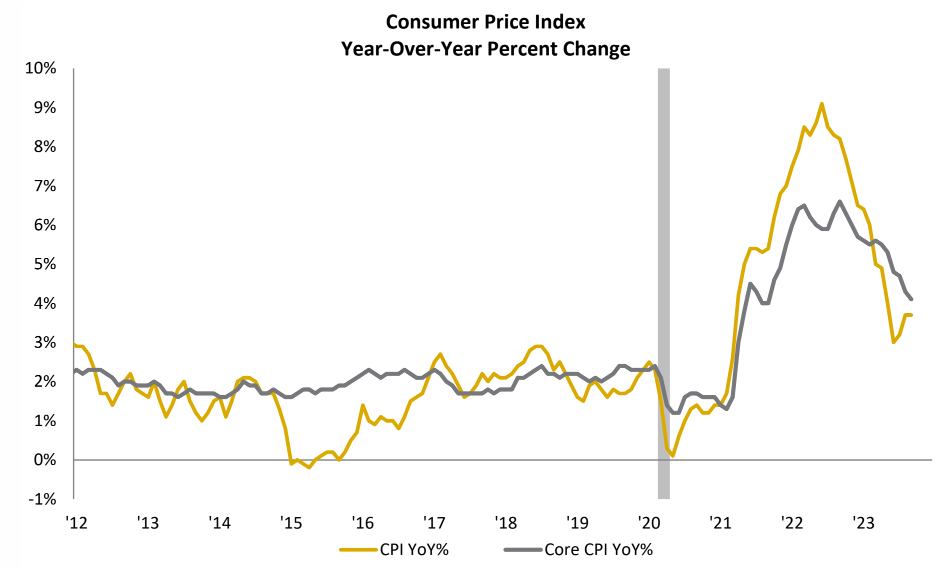
September's consumer price index (CPI) rose 3.7% year-over-year, in-line with last month but slightly above expectations of 3.6%. Core CPI (which excludes food and energy) rose 4.1%, an improvement from 4.3% in the prior month. This report comes on the heels of major geopolitical concerns following the attacks in Israel and a surprisingly strong labor market report. All eyes now turn to the Fed's November rate decision.

In the details of today's inflation report, gasoline prices rose 2.1% month-over-month after rising a remarkable, 10.6% in August. Housing inflation persisted as the cost of shelter rose 0.6% compared to August. In better news, the price of used cars fell 2.5%, the fourth consecutive month of declines, and apparel prices fell 0.8%

What's the Fed to do?

While today's data is a reminder that underlying inflation persists, it is unlikely to drive material changes in the Fed's view of inflation. In recent comments, Fed officials hinted towards no further federal funds rate hikes, leading investors to believe the Fed will likely not hike again this year. (As of this writing, fed funds futures are pricing a ~60% chance of no further action this year.)[i] As always, the Fed will be data-dependent, and as indicated by Friday's better-than-expected jobs report and yesterday's surprisingly high producer price index, inflation remains rooted in the system. **We continue to believe the Fed will maintain its higher-for-longer approach but likely hold off on further rate hikes for the time being.**

Figure 1: Consumer Price Index



Source: BLS, Bloomberg

Capital Management Group | First Citizens Bank | 8510 Colonnade Center Drive | Raleigh, NC 27615
Phillip Neuhart | SVP, Director of Market and Economic Research
phillip.neuhart@firstcitizens.com | 919.716.2403

Brent Ciliano, CFA | SVP, Chief Investment Officer
brent.ciliano@firstcitizens.com | 919.716.2650

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[i] CME Group, 10/12/23 9:00 am