U.S. Data Review

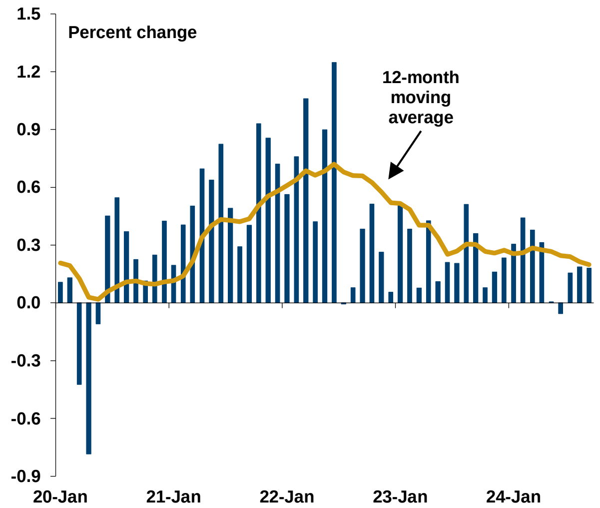
- CPI: firm increase in core, with both goods and services contributing
- Unemployment claims: rise in initial and continuing claims influenced by hurricane-related weather effects

Lawrence Werther
Brendan Stuart
Daiwa Capital Markets America
lawrence.werther@us.daiwacm.com
brendan.stuart@us.daiwacm.com

September CPI

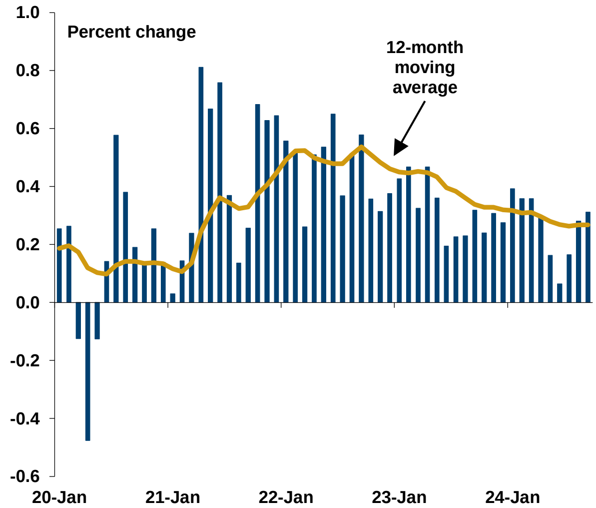
- The CPI printed above expectations in September, with the headline increasing 0.2 percent (+0.180 percent with less rounding) and the core jumping 0.3 percent (+0.312 percent; Bloomberg median expectation of advances of 0.1 and 0.2 percent, respectively; charts, below). The changes translated to year-over-year increases of 2.4 percent for the headline (versus +2.5 percent in August) and 3.3 percent for the core (up from +3.2 percent in August).

Headline CPI



Source: Bureau of Labor Statistics via Haver Analytics

Core CPI

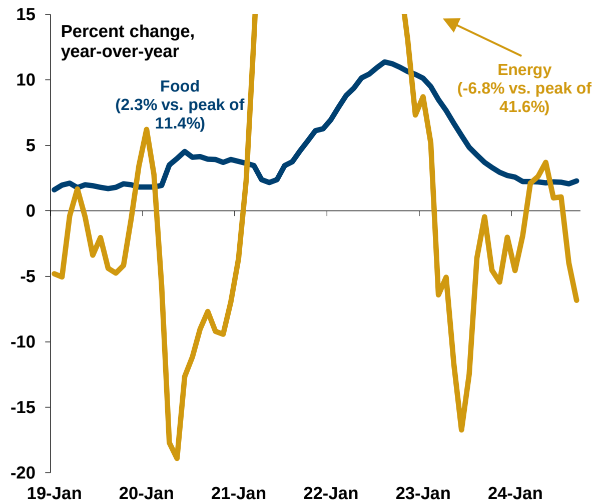


Source: Bureau of Labor Statistics via Haver Analytics

- The food component showed hints pressure in the latest month (+0.4 percent versus an average of +0.15 percent in the first eight months of 2024). Notably, prices of fruits and vegetables rose 0.9 percent, the second surge in the last three months, and the meats, poultry, fish, and eggs basket advanced 0.8 percent. With that said, however, the broad trend remained in line with the moderate pre-pandemic performance (+2.3 percent year-over-year, up from +2.1 percent in August; chart, right).

- The energy component, in contrast to the movement in food, fell 1.9 percent (-6.8 percent year-over-year; chart). A decline in gasoline prices (-4.1 percent) pulled the energy commodities subcomponent lower (-4.0 percent), although the energy services area provided a partial offset (+0.7 percent month-to-month).

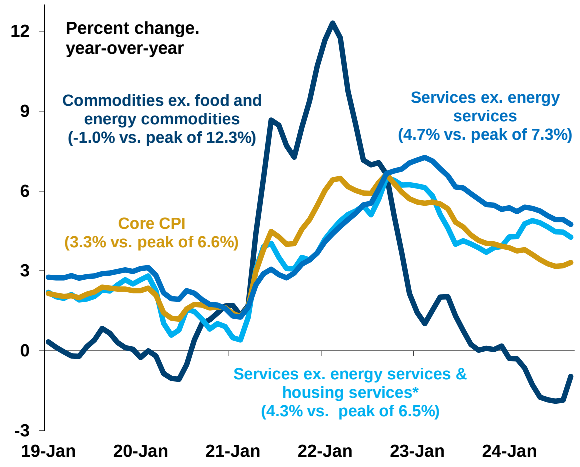
CPI: Food & Energy



Source: Bureau of Labor Statistics via Haver Analytics

- The advance of 0.3 percent in the core followed a similar increase in the prior month (+0.281 percent) after tame increases in the May-to-July period (average of +0.131 percent per month during that span). Core goods prices rose 0.2 percent, the first pickup since February 2024, with apparel prices standing out on the high side (+1.1 percent). That said, core goods prices remain on a deflationary track, falling 1.0 percent year-over-year (versus -1.9 percent in August). Additionally, we would note that the apparel component is often volatile from month to month (range of -0.7 percent to +1.2 percent in 2024 thus far). Service prices excluding energy remained on their upward trajectory, although price pressure has eased somewhat from rapid monthly advances in 2024-Q1 (+0.4 percent month-over-month; +4.7 percent year-over-year, down from +4.9 percent in August). On the favorable side, housing-related components recorded relatively subdued gains, with both the rent of primary residence and owners' equivalent rent of residences areas rising 0.3 percent (+0.279 percent and +0.333 percent, respectively with less rounding; year-over-year changes of 4.8 percent and 5.2 percent, respectively, in September – down from 5.0 percent and 5.4 percent in the prior month). Evidently, disinflation already captured in private-sector measures of rents may now be passing through more forcefully to the official inflation indexes. Core service inflation excluding rents and OER (the so-called supercore) increased 0.4 percent, the second consecutive firm increase after subdued readings in the prior three months (chart, below left). Notably, airfares increased 3.2 percent after a surge of 3.9 percent in August, which followed declines in the prior five months. Moreover, the costs of motor vehicle insurance remained under pressure (+1.2 percent in September) and the medical care services area jumped 0.7 percent after declines in the prior two months. On a year-over-year basis, the advance in the supercore measure slowed to 4.3 percent from 4.5 percent in August.

Decomposition of Core CPI

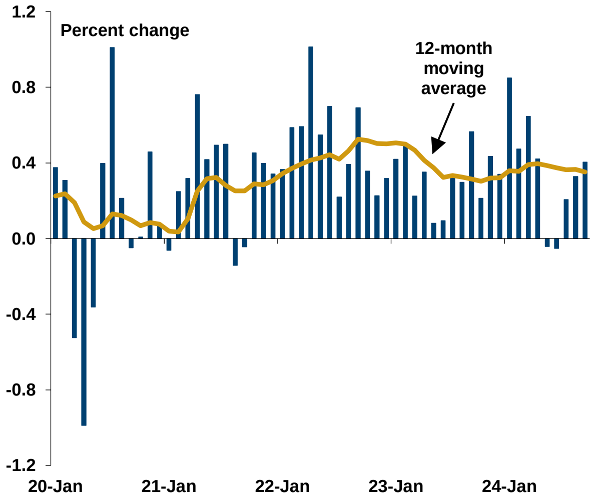


** Service prices excluding energy services, rent of primary residence, and owners' equivalent rent components.*

Source: Bureau of Labor Statistics via Haver Analytics

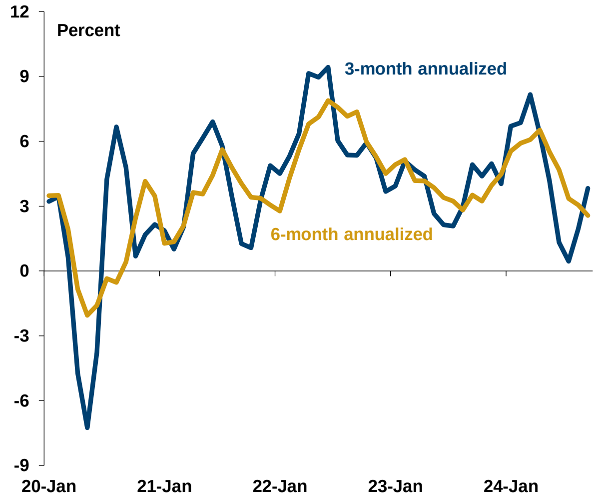
- To better track near-term developments in core services excluding rents and OER, see below the three and six-month annualized growth rates. On a three-month basis, the measure jumped 3.8 percent from 1.9 percent in the previous month, although the six-month growth rate slipped to 2.6 percent from 3.1 percent. With this in mind, and in light of a flood of comments by Fed officials this week, we still suspect that the FOMC is encouraged by inflation trends despite the above-consensus print for the September CPI. Even so, we expect officials to proceed cautiously and rely heavily on the evolution of the data. As it stands, the recent data call for cuts of 25 basis points at upcoming meetings rather than further outsized reductions of 50 basis points.

CPI: Core Services Ex. Housing



Source: Bureau of Labor Statistics via Haver Analytics

CPI: Core Services Ex. Housing



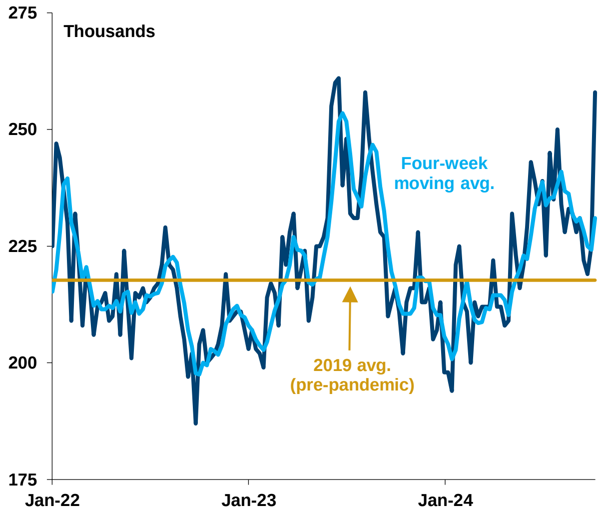
Source: Bureau of Labor Statistics via Haver Analytics

Unemployment Claims

- Initial claims for unemployment insurance posted a firm increase in the week ending October 5, rising by 33,000 to 258,000 (the highest value observed since August 2023). Concurrently, the four-week moving average, a measure used to smooth out volatility seen in claims (range of 219,000 to 258,000 in the past three weeks), increased 6,750 to 231,000. Claims had drifted lower since reaching a cycle peak of 250,000 last July, but the latest performance retraced the entirety of that improvement, leaving the measure above the 2019 pre-pandemic average of 218,000 for the 20th consecutive week (chart, below left). That said, the recent deterioration was likely influenced by weather effects from Hurricane Helene (and automaker layoffs) rather than broad deterioration of underlying fundamentals. According to unadjusted data, states in the hurricane's path (Florida, North Carolina, and Tennessee, for instance) saw outsized increases in the latest week. Additionally, Michigan saw a spike in initial claims, likely tied to layoffs concentrated at one automaker in particular.

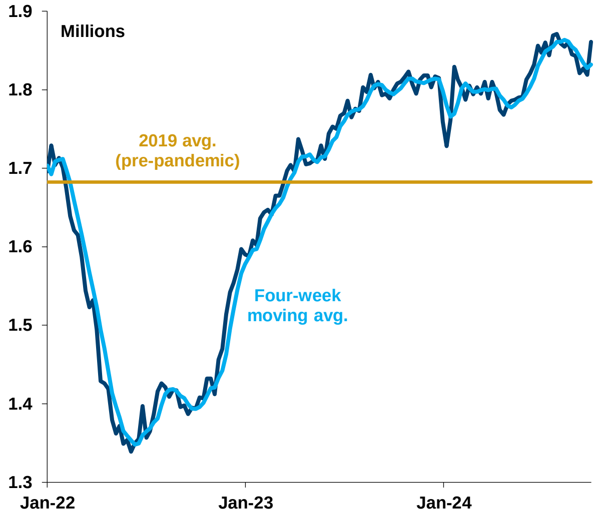
- Continuing claims also worsened, rising by 42,000 to 1.861 million in the week ending September 28 (associated with an increase of 4,500 to 1.832 million for the four-week moving average). Claims have remained above the 2019 pre-pandemic average of about 1.7 million since March 2023 (chart, below right). Again, while we view the development over the past several months as a recalibration in previously tight conditions, claims are likely to experience marked volatility in coming weeks as hurricane-related effects (from Helene and Milton) continue to feed through to filings.

Initial Claims for Unemployment Insurance



Source: U.S. Department of Labor via Haver Analytics

Continuing Claims for Unemployment Insurance



Source: U.S. Department of Labor via Haver Analytics