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Economics Group

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Through Hurricane Effects, CPI Inflation Looked Anemic

Consumer prices rose 0.5 percent in September as gasoline prices surged in the wake of recent hurricanes. Core inflation rose less than expected and suggests the trend in inflation remains rather tepid.

Here Comes the Story of the Hurricane

As was widely expected, the Consumer Price Index posted one of its largest monthly gains of recent years in September amid a jump in energy prices. The combination of refinery outages following Hurricane Harvey and millions of Floridians hitting the road to avoid the path of Hurricane Irma sent gasoline prices up 13.1 percent in September. All told, gasoline accounted for about three-quarters of the headline's 0.5 percent increase last month.

Beyond energy, however, the effects of Harvey and Irma appeared much more modest. Replacement demand for autos following the storms was not enough to arrest the slide in prices that has been in train since early this year. Despite a 12-year high in new vehicle sales, prices slid 0.4 percent. Used vehicle prices were also down (0.2 percent), although the drops in August and September were the smallest of this year.

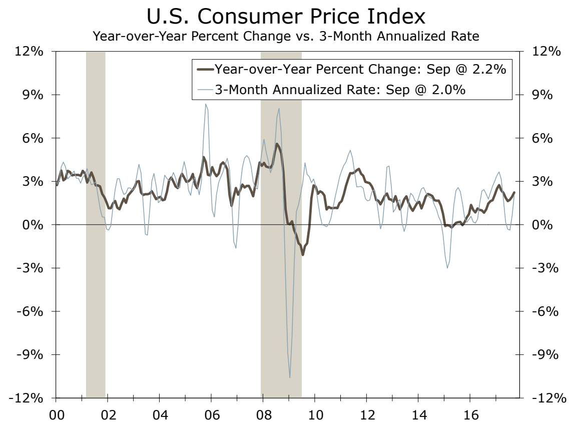
Hotel prices may have gotten a lift from the large-scale evacuations, but the 1.5 percent rise in September does not look unusually large relative to the swings in recent months; the lodging away from home index has swung by a greater magnitude in four of the previous five months.

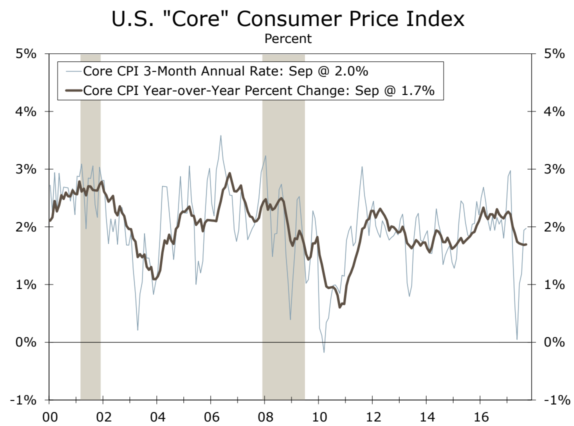
Excluding food and energy, the core index suggests the trend in inflation remains weak relative to the start of the year. Core inflation rose 0.1 percent, which was enough to bring the 3-month annualized rate up to 2.0 percent. While that is above the current year-ago rate and points to the 12-month change edging a bit higher in the coming months, it continues to run below the roughly 2.2 percent pace of late last year.

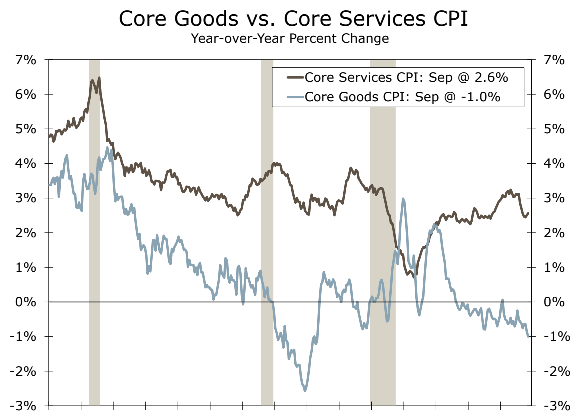
Core services rose more moderately in September (up 0.2 percent) amid more subdued gains in shelter costs, medical care, and transportation. Meanwhile, core goods prices fell for a seventh consecutive month due to the aforementioned declines in prices for autos, but also apparel, prescription drugs and household furnishings.

Transitory or Persistent Is Still an Open Question for the Fed

At a time when the Fed is closely examining all inflation data for clues about whether the slowdown that began last spring is likely to be temporary or persistent, today's CPI report does not provide much comfort. As indicated in the statement and minutes following the September meeting, FOMC members expected to see inflation lifted temporarily by the hurricane-related bump in gasoline and other items last month. Yet the modest increase in core inflation is likely to keep many Fed officials concerned about the near-term path of inflation and whether another rate hike will be warranted in December. Fortunately for the data-dependent Fed, there will be two more CPI and PCE inflation reports before the December decision, meaning there is still time for greater clarity to emerge.







Source: U.S. Department of Labor and Wells Fargo Securities

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