

US Economic Perspectives

September CPI recap: Strengthening rents

Economics

Americas

Headline CPI +0.41%: Strong food and energy, solid core

The headline CPI increased 41bp in September led by a 1¼% increase in energy prices and a 0.9% rise in food prices. The core CPI also moved up 24bp after a modest 10bp increase in August. The rise in energy prices was driven by strong price increases for both natural gas (+2.7%) and gasoline (+1.2%). Similarly, food saw strong price increases for both food at home (+1.2%) and food away from home (+0.5%). Early-month gasoline prices for October suggest another strong increase in non-core prices in next month's report. The 41bp increase in the September headline CPI was above most projections ([UBS Econ projection 0.28%](#), [UBS Big Data Nowcasting 0.25%](#), consensus average 0.33%).

Core CPI +0.24%: OER/rents jump up; used cars, fares, and hotels down

The 24bp increase in the core CPI was quite close to consensus, and, except for last month, was the smallest increase in the core CPI since February. Nonetheless, the September increase was above our expectations ([UBS Econ projection 0.18%](#), [UBS Big Data Nowcasting 0.07%](#), consensus average 0.25%) and the surprise was largely caused by used car prices falling roughly a percentage point less than expected, while owners' equivalent rent (OER) and tenants' rent both picked up more than expected. We continue to expect stronger core increases in the next few months before a notable slowing takes hold early next year as easing of supply constraints and a rotation of consumption away from goods toward services.

A 43bp increase in OER, and 45bp increase in tenants' rent, was a notable pickup from 25 and 31bp increases in the prior month. We have been expecting OER and tenants' rent to pick up sharply for some time, and have been surprised with the slowdown in OER in the prior couple of months. Today's upside surprise roughly reverses the downside surprises in July and August and puts the CPI OER/rent change over the past few months about in line with what we would expect given the increases in rents for new leases. We note that the indexes of rents for new leases that we track all peaked in July. As a result we continue to expect the CPI measures of OER and rent, which lag rents for new lease indexes, to rise solidly through the end of the year with the monthly increases peaking at around a 45bp average in the first quarter of next year.

On the downside, fares dropped 6.4%, used motor vehicle prices slid 0.7%, and lodging away from home slipped 0.6%. Combined these categories took 9bp off of the September core CPI increase after subtracting 19bp off of the August increase. We expect each of these categories to cease being a drag on the core CPI over the next few months, and be a key contributor to faster core CPI inflation in the fourth quarter. Outside of these items other core goods prices continued to increase strongly, though the data was somewhat mixed with new vehicle prices increasing between 1% and 2% for a fifth month in a row, and prices for household furnishings and supplies and information goods also rising strongly, but prices for apparel and recreation goods falling. We expect core goods prices, on average, will continue to rise strongly through the end of the year. A full round-up of the release data compared to our expectations is shown in Figure 16.

12-month headline CPI inflation at 5.4%

12-month headline CPI inflation moved up to 5.4% in September, and the core CPI 12-month change held at 4.0%. We expect both the headline and core 12-month changes will move up notably between now and the early part of next year before starting a downward slide. (Figure 13)

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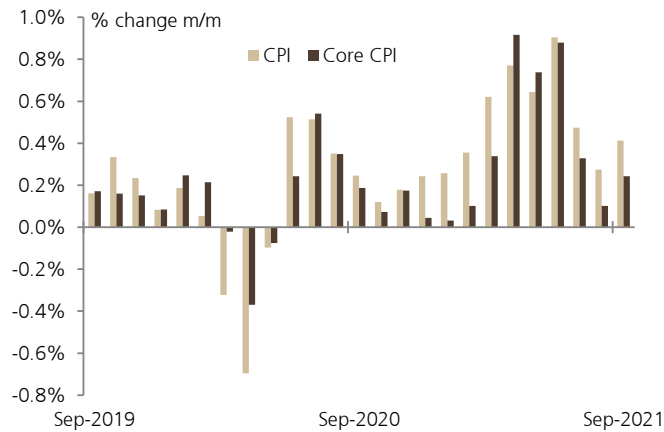
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September core PCE prices +0.29%

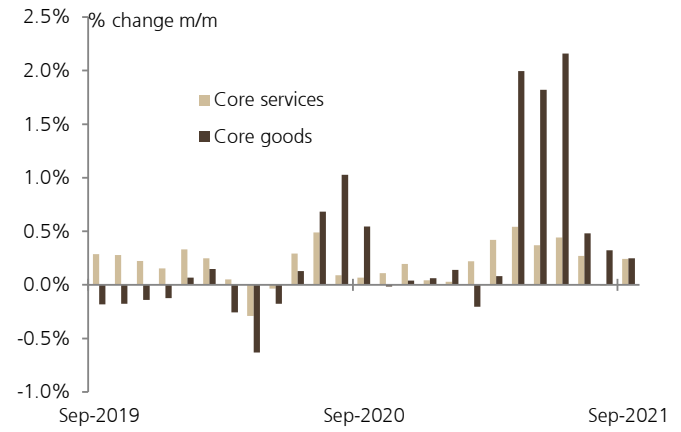
Using data from today's CPI we project headline PCE prices rose around 0.39% in September, and core PCE prices moved up 0.29%. Today's estimate of PCE prices would put the 12-month change for headline PCE prices through September at 4.5% and core PCE at 4.6%. However, we note that tomorrow's PPI release, which contains data accounting for between 10 and 15% of PCE prices, can lead to a notable revision in these projections.

Figure 1: Headline and core CPI inflation



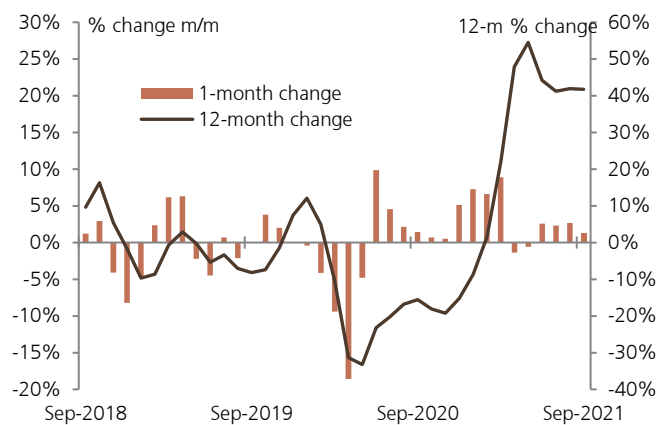
Source : BLS, UBS

Figure 2: Core CPI goods and services inflation



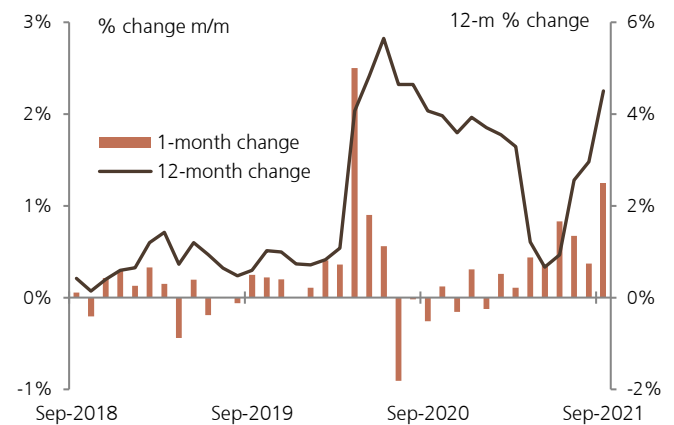
Source : BLS, UBS

Figure 3: Prices for energy goods are up 40% over the past 12 months



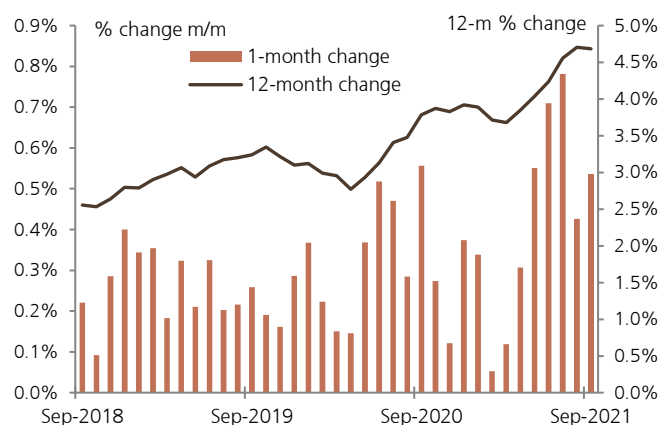
Source : BLS, UBS

Figure 4: Food at home prices increases strongly



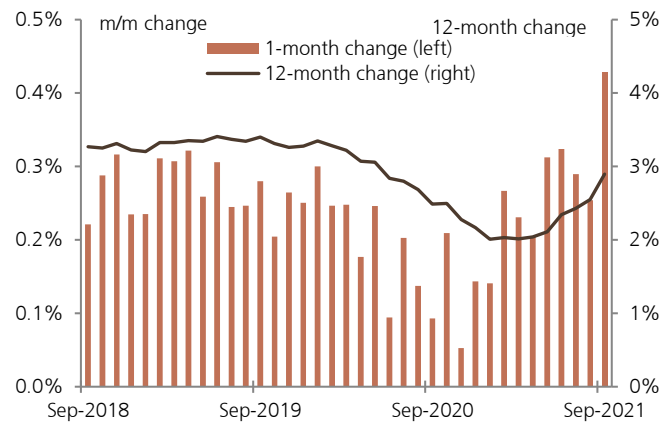
Source : BLS, UBS

Figure 5: Prices for food away from home rose solidly again



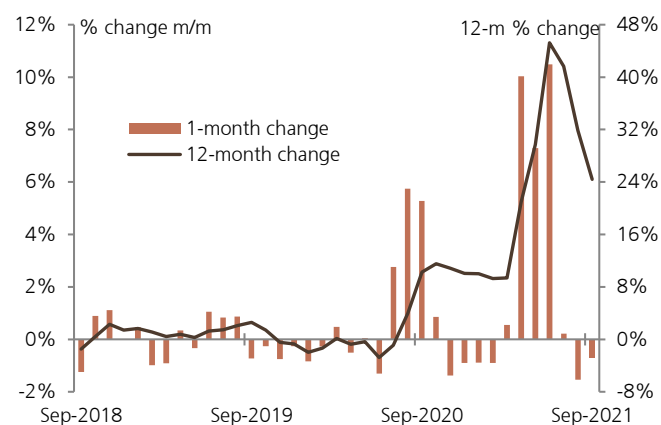
Source : BLS, UBS

Figure 6: The increase in owners' equivalent rent picked back up in September



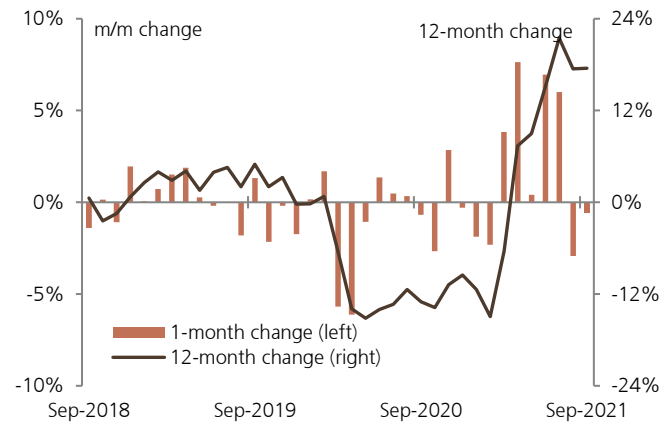
Source : BLS, UBS

Figure 7: CPI used car price fell again, but should rise in the next few months



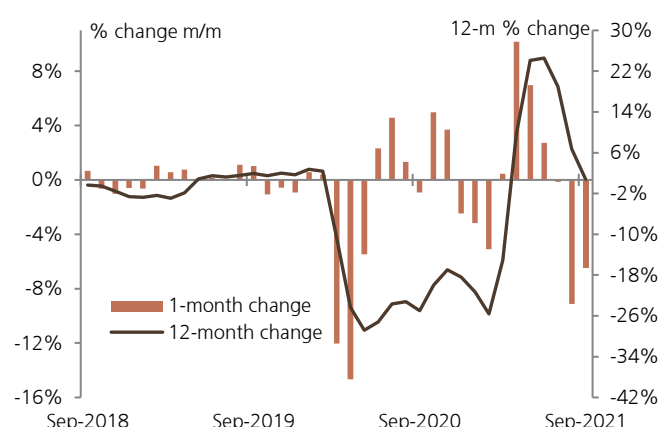
Source : BLS, UBS

Figure 8: Prices for lodging away from home dropped for a second month in a row



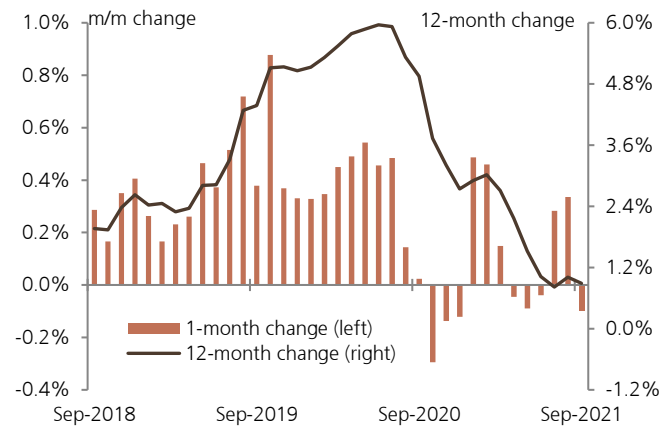
Source : BLS, UBS

Figure 9: Airfares have tumbled in the past two months



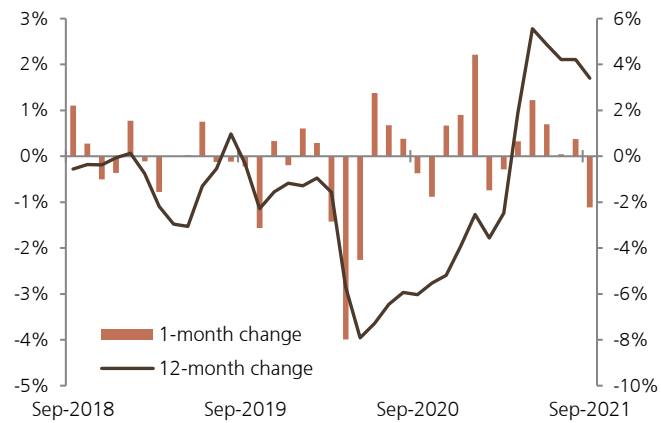
Source : BLS, UBS

Figure 10: Prices for medical services moved down, but should start surging next month



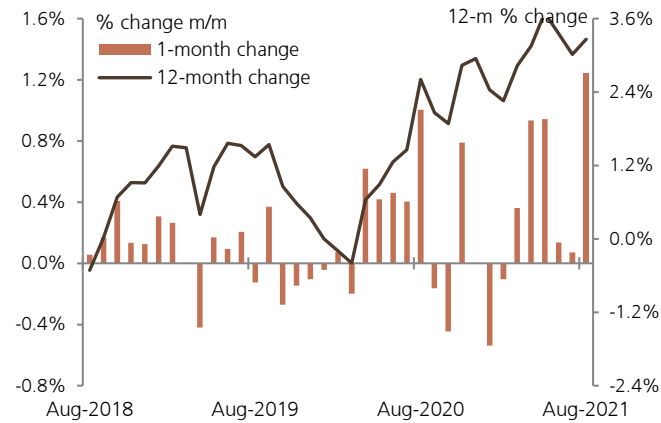
Source : BLS, UBS

Figure 11: Apparel prices remain well below pre-pandemic levels



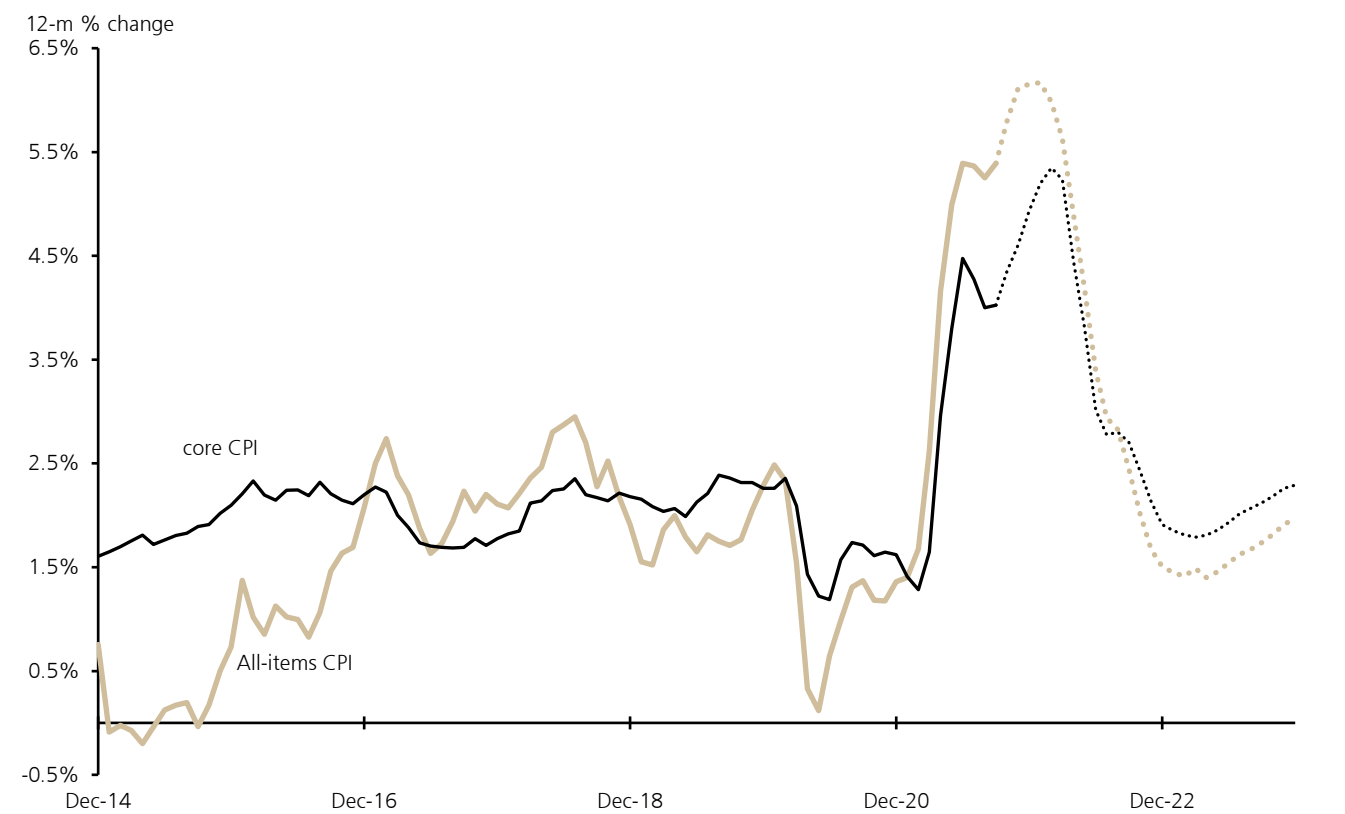
Source : BLS, UBS

Figure 12: Prices for household furnishings and supplies increased surprisingly sharply



Source : BLS, UBS

Figure 13: 12-month CPI inflation is projected to peak early next year



Source : BLS, UBS estimates

Figure 14: Percent change in CPI

	Weight	monthly % change			3-month change (AR)		12-month change	
		Jul-2021	Aug-2021	Sep-2021	Jun-2021	Sep-2021	Sep-2020	Sep-2021
Headline CPI	100.0	0.47	0.27	0.41	9.68	4.74	1.37	5.39
<i>Food</i>	<i>13.9</i>	<i>0.72</i>	<i>0.40</i>	<i>0.93</i>	<i>6.58</i>	<i>8.48</i>	<i>3.95</i>	<i>4.59</i>
Food at home	7.7	0.67	0.37	1.24	6.68	9.53	4.07	4.51
Food away from home	6.2	0.78	0.43	0.54	6.45	7.20	3.78	4.68
<i>Energy</i>	<i>7.3</i>	<i>1.63</i>	<i>1.98</i>	<i>1.28</i>	<i>5.52</i>	<i>21.39</i>	<i>-7.69</i>	<i>24.83</i>
Energy goods	4.1	2.33	2.67	1.31	2.35	28.33	-15.54	41.73
Energy services	3.2	0.79	1.13	1.24	9.52	13.39	1.37	8.53
CPI ex. food & energy	78.8	0.33	0.10	0.24	10.61	2.73	1.71	4.03
<i>Goods ex. food & energy</i>	<i>20.7</i>	<i>0.48</i>	<i>0.32</i>	<i>0.25</i>	<i>26.70</i>	<i>4.29</i>	<i>1.04</i>	<i>7.27</i>
Household furnishings & supplies	3.7	0.07	1.24	1.29	8.34	10.91	2.09	4.76
Apparel	2.7	0.04	0.37	-1.12	9.35	-2.79	-6.03	3.39
Transportation commodities less motor fuel	7.9	1.01	-0.02	0.32	72.21	5.36	4.55	14.95
New vehicles	3.8	1.72	1.22	1.30	17.56	18.34	1.03	8.74
Used cars & trucks	3.4	0.22	-1.54	-0.70	189.53	-7.82	10.27	24.41
MV parts & equipment	0.4	1.06	1.71	0.85	10.34	15.45	0.60	6.92
Medical care commodities	1.5	0.17	-0.17	0.31	0.63	1.22	0.92	-1.62
Recreation commodities	2.0	0.53	0.95	-0.24	5.29	5.09	-0.81	3.48
Education and communication goods	0.5	0.83	-0.09	0.63	13.99	5.63	-6.01	2.58
Educational books & supplies	0.1	0.51	-1.11	-0.39	8.97	-3.87	0.19	0.27
Information technology goods	0.4	0.92	0.19	0.91	15.44	8.38	-7.83	3.22
Alcoholic beverages	1.0	0.30	0.35	0.16	4.06	3.27	1.76	2.81
Other goods	1.5	0.19	0.37	0.08	1.70	2.60	1.48	3.39
<i>Services ex. energy</i>	<i>58.1</i>	<i>0.27</i>	<i>-0.01</i>	<i>0.24</i>	<i>5.55</i>	<i>2.04</i>	<i>1.92</i>	<i>2.91</i>
Shelter	32.6	0.43	0.16	0.40	4.84	4.05	2.04	3.16
Owners' equivalent rent	23.6	0.29	0.25	0.43	3.42	3.96	2.49	2.89
Tenants' rent	7.6	0.16	0.31	0.45	2.73	3.75	2.72	2.43
Lodging away from home	1.1	6.01	-2.92	-0.56	78.52	9.68	-13.00	17.54
Tenants' & household insurance	0.3	0.07	-0.19	0.33	0.39	0.83	-0.62	0.05
Medical care services	7.1	0.28	0.34	-0.10	-0.70	2.10	4.94	0.89
Water, sewer, & trash	1.1	0.46	0.31	0.46	2.48	5.03	3.40	3.73
Household operations	0.9	0.19	0.74	-0.24	11.44	2.77	2.71	6.63
Transportation services	5.1	-1.09	-2.29	-0.47	26.31	-14.36	-5.10	4.39
Airline fares	0.6	-0.14	-9.11	-6.42	114.90	-47.96	-24.98	0.79
Other transportation services	4.5	-1.24	-1.20	0.36	16.92	-8.07	-1.64	4.78
Education and communication services	6.1	0.14	0.22	0.37	1.95	2.95	2.84	1.66
Tuition and other school fees	2.8	0.21	0.07	0.41	3.07	2.77	1.50	2.01
Communication services	3.2	0.07	0.35	0.34	0.99	3.10	4.07	1.35
Recreational services	3.7	0.56	0.23	0.37	5.64	4.73	2.67	3.48
Other personal services	1.6	1.18	0.44	0.11	0.27	7.17	3.07	3.45

Source : BLS, UBS

Figure 15: Contributions to Percent Change in CPI

	Weight	contrib to monthly % change			contrib to 3-m ch (AR)		contrib to 12-m change	
		Jul-2021	Aug-2021	Sep-2021	Jun-2021	Sep-2021	Sep-2020	Sep-2021
Headline CPI	100.0	0.474	0.274	0.412	9.680	4.742	1.371	5.390
<i>Food</i>	<i>13.9</i>	<i>0.100</i>	<i>0.055</i>	<i>0.129</i>	<i>0.935</i>	<i>1.161</i>	<i>0.522</i>	<i>0.647</i>
Food at home	7.7	0.051	0.028	0.095	0.523	0.716	0.292	0.352
Food away from home	6.2	0.049	0.027	0.034	0.412	0.445	0.229	0.294
<i>Energy</i>	<i>7.3</i>	<i>0.117</i>	<i>0.143</i>	<i>0.093</i>	<i>0.368</i>	<i>1.430</i>	<i>-0.583</i>	<i>1.525</i>
Energy goods	4.1	0.093	0.108	0.053	0.083	1.029	-0.655	1.260
Energy services	3.2	0.025	0.036	0.040	0.299	0.408	0.046	0.267
CPI ex. food & energy	78.8	0.260	0.080	0.192	8.398	2.172	1.357	3.210
<i>Goods ex. food & energy</i>	<i>20.7</i>	<i>0.100</i>	<i>0.067</i>	<i>0.051</i>	<i>5.093</i>	<i>0.879</i>	<i>0.201</i>	<i>1.473</i>
Household furnishings & supplies	3.7	0.003	0.046	0.048	0.315	0.400	0.069	0.181
Apparel	2.7	0.001	0.010	-0.030	0.259	-0.078	-0.179	0.092
Transportation commodities less motor fuel	7.9	0.079	-0.001	0.025	4.264	0.402	0.300	1.060
New vehicles	3.8	0.064	0.046	0.049	0.638	0.649	0.038	0.325
Used cars & trucks	3.4	0.008	-0.054	-0.024	3.419	-0.260	0.251	0.668
MV parts & equipment	0.4	0.004	0.007	0.003	0.040	0.058	0.002	0.027
Medical care commodities	1.5	0.003	-0.003	0.005	0.010	0.019	0.016	-0.026
Recreation commodities	2.0	0.010	0.019	-0.005	0.108	0.101	-0.014	0.070
Education and communication goods	0.5	0.004	0.000	0.003	0.068	0.028	-0.031	0.013
Educational books & supplies	0.1	0.001	-0.001	0.000	0.010	-0.004	0.000	0.000
Information technology goods	0.4	0.003	0.001	0.003	0.058	0.032	-0.030	0.013
Alcoholic beverages	1.0	0.003	0.003	0.002	0.043	0.033	0.017	0.029
Other goods	1.5	0.003	0.005	0.001	0.026	0.038	0.023	0.050
<i>Services ex. energy</i>	<i>58.1</i>	<i>0.157</i>	<i>-0.004</i>	<i>0.141</i>	<i>3.334</i>	<i>1.208</i>	<i>1.146</i>	<i>1.734</i>
Shelter	32.6	0.140	0.052	0.131	1.632	1.327	0.682	1.053
Owners' equivalent rent	23.6	0.068	0.060	0.101	0.843	0.941	0.599	0.700
Tenants' rent	7.6	0.012	0.024	0.034	0.219	0.288	0.217	0.191
Lodging away from home	1.1	0.063	-0.032	-0.006	0.546	0.093	-0.131	0.165
Tenants' & household insurance	0.3	0.000	-0.001	0.001	0.001	0.003	-0.002	0.000
Medical care services	7.1	0.020	0.024	-0.007	-0.053	0.151	0.348	0.065
Water, sewer, & trash	1.1	0.005	0.003	0.005	0.028	0.054	0.037	0.041
Household operations	0.9	0.002	0.007	-0.002	0.102	0.025	0.024	0.058
Transportation services	5.1	-0.057	-0.119	-0.024	1.269	-0.814	-0.301	0.225
Airline fares	0.6	-0.001	-0.065	-0.040	0.524	-0.456	-0.169	0.005
Other transportation services	4.5	-0.056	-0.054	0.016	0.742	-0.383	-0.086	0.216
Education and communication services	6.1	0.008	0.013	0.022	0.125	0.182	0.170	0.104
Tuition and other school fees	2.8	0.006	0.002	0.011	0.091	0.079	0.043	0.059
Communication services	3.2	0.002	0.011	0.011	0.034	0.103	0.126	0.046
Recreational services	3.7	0.021	0.008	0.014	0.214	0.176	0.103	0.131
Other personal services	1.6	0.019	0.007	0.002	0.005	0.116	0.050	0.057

Source : BLS, UBS

Figure 16: UBS economics CPI forecast errors

	<u>Percent Change</u>			<u>Contribution to headline CPI</u>		
	Actual	Forecast	Difference	Actual	Forecast	Difference
Headline CPI	0.41	0.28	0.13	0.412	0.285	0.128
<i>Food</i>	0.93	0.44	0.48	0.129	0.062	0.067
Food at home	1.24	0.48	0.76	0.095	0.037	0.058
Food away from home	0.54	0.40	0.14	0.034	0.025	0.009
<i>Energy</i>	1.28	1.15	0.13	0.093	0.084	0.010
Energy goods	1.31	1.18	0.13	0.053	0.048	0.005
Energy services	1.24	1.10	0.14	0.040	0.035	0.005
CPI ex. food & energy	0.24	0.18	0.07	0.192	0.139	0.052
<i>Goods ex. food & energy</i>	0.25	0.16	0.09	0.051	0.032	0.019
Household furnishings & supplies	1.29	0.46	0.83	0.048	0.017	0.031
Apparel	-1.12	0.40	-1.52	-0.030	0.011	-0.041
Transportation commodities less motor fuel	0.32	-0.20	0.52	0.025	-0.015	0.041
New vehicles	1.30	1.00	0.30	0.049	0.038	0.011
Used cars & trucks	-0.70	-1.72	1.02	-0.024	-0.059	0.035
MV parts & equipment	0.85	1.50	-0.65	0.003	0.006	-0.003
Medical care commodities	0.31	0.10	0.21	0.005	0.001	0.003
Recreation commodities	-0.24	0.70	-0.94	-0.005	0.014	-0.019
Education and communication goods	0.63	0.26	0.37	0.003	0.001	0.002
Educational books & supplies	-0.39	0.47	-0.86	0.000	0.000	-0.001
Information technology goods	0.91	0.20	0.71	0.003	0.001	0.003
Alcoholic beverages	0.16	0.15	0.01	0.002	0.002	0.000
Other goods	0.08	0.14	-0.06	0.001	0.002	-0.001
<i>Services ex. energy</i>	0.24	0.18	0.06	0.141	0.107	0.034
Shelter	0.40	0.28	0.13	0.131	0.090	0.041
Owners' equivalent rent	0.43	0.31	0.12	0.101	0.073	0.028
Tenants' rent	0.45	0.33	0.12	0.034	0.025	0.009
Lodging away from home	-0.56	-0.85	0.29	-0.006	-0.009	0.003
Tenants' & household insurance	0.33	0.15	0.18	0.001	0.001	0.001
Medical care services	-0.10	0.14	-0.23	-0.007	0.010	-0.017
Water, sewer, & trash	0.46	0.28	0.18	0.005	0.003	0.002
Household operations	-0.24	0.41	-0.65	-0.002	0.004	-0.006
Transportation services	-0.47	-0.40	-0.07	-0.024	-0.020	-0.003
Airline fares	-6.42	-4.00	-2.42	-0.040	-0.025	-0.015
Other transportation services	0.36	0.10	0.26	0.016	0.004	0.012
Education and communication services	0.37	0.09	0.28	0.022	0.006	0.017
Tuition and other school fees	0.41	0.11	0.30	0.011	0.003	0.008
Communication services	0.34	0.08	0.26	0.011	0.003	0.008
Recreational services	0.37	0.30	0.07	0.014	0.011	0.003
Other personal services	0.11	0.27	-0.16	0.002	0.004	-0.003

Source : BLS, UBS