

## Overall CPI Rises More Than Expected but Consumer Inflation is Expected to Moderate in the Near Term

- The overall CPI rose 0.2% month-on-month in September, unchanged from July and August. The non-seasonally adjusted year ago increase fell to 2.4%, the slowest pace since February 2021.
- Food and shelter prices rose 0.4% and 0.2% respectively and were responsible for over 75% of the overall increase.
- Energy prices declined 1.9% after falling 0.8% in August and limited the overall increase.
- Core CPI – which excludes volatile food and energy prices – increased 0.3% last month, on par with August. Core CPI is up 3.3% from a year ago, a slight uptick from 3.2% in August.
- Consumer inflation is expected to moderate over the near term against a backdrop of slower economic growth and a cooling labor market.

The consumer price index (CPI) rose 0.2% month-on-month in September, on par with the increases in July and August and slightly above PNC's forecast of 0.1%. The upturn was primarily driven by increases of 0.4% in food prices, with food at home up 0.4% and food away from home up a more modest 0.3%, and a 0.2% increase in shelter prices. Together, these items were responsible for more than 75% of the overall increase.

Transportation services, medical care services, used cars and trucks and new vehicle prices rose 1.4%, 0.7%, 0.3% and 0.2% respectively and contributed to the all-items increase. Energy prices declined 1.9% following a 0.8% decrease in August and limited the overall increase. Despite the larger-than-expected monthly increase, the non-seasonally adjusted year ago growth rate fell to 2.4%, the smallest annual increase since February 2021; this was down from 2.5% in August and a peak of more than 9% in mid-2022.

Core CPI – which excludes the volatile food and energy components and is more closely monitored by the Federal Reserve—rose 0.3%, unchanged from August. Shelter, motor vehicle insurance, medical care, apparel, and airline fares increased in September, while recreation and communication were among those that declined. Core CPI is 3.3% higher than a year ago, a slight uptick from 3.2% in August. Shelter prices are up 4.9% year-on-year and contributed over 65% of the annual increase in the core CPI. Other items with sizable increases over the last 12 months include motor vehicle insurance (16.3%), medical care (3.3%), personal care (2.5%) and apparel (1.8%).

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While the path to the Fed's 2% target (using a different inflation metric, the personal consumption expenditures price index) won't be in a straight line, PNC expects inflation to moderate in the near term amid slower economic growth, a cooling labor market, and slower growth in shelter costs. That said, the jobless rate is projected to peak at 4.4% next year, still low by historical standards. Nonetheless, PNC expects two 25 basis point rate cuts at the two remaining meetings in November and December, and four more identical cuts next year, putting the Fed funds rate in the range of 3.25%-3.50% by mid-2025.

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