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Headline and Core CPI pressures rise in September. HR Ratings still expects a Fed pause this month

During September, the Consumer Price Index (CPI) registered a monthly change (m/m) of 0.65%, marking the largest increase since March 2026 (0.87% m/m). The majority of this movement was attributed to a 5.20% m/m spike in energy prices, which was associated with the partial closure of the Strait of Hormuz and the widening of the Middle East conflict. In fact, the gasoline index jumped 9.1% m/m, accounting for over half of the monthly increase across all items, as reported by the Bureau of Labor Statistics (BLS). Moreover, Core CPI rose 0.33% m/m (see Figure 1), surpassing the 0.29% m/m surge that was recorded the previous month and accumulating three consecutive months of growth. Despite these added price pressures, HR Ratings expects the Federal Reserve (Fed) to keep the Federal Funds Rate at 3.75% - 4.00% during this month's monetary policy decision (October 28), allowing officials to monitor economic conditions until December, when we do expect a hike. Nevertheless, it looks challenging for Chairman Kevin Warsh to achieve another unanimous vote, mainly due to mixed statements made by some Federal Open Market Committee (FOMC) members in recent days.

Figure 1. CPI Inflation Evolution

Inflation During:	August-26		September-26		Annualized 3MMA		
	Monthly	Annual	Monthly	Annual	Jul-26	Aug-26	Sep-26
Headline	0.40%	3.35%	0.65%	3.72%	3.77%	1.14%	1.73%
Core	0.29%	2.45%	0.33%	2.57%	2.36%	1.97%	2.34%
Services less Energy	0.26%	3.01%	0.35%	3.15%	3.62%	2.27%	1.98%
Services less Rent	0.31%	3.10%	0.31%	3.22%	3.50%	2.21%	2.27%
Rent of Shelter	0.25%	3.03%	0.41%	3.22%	3.99%	2.99%	2.60%
Non Durable Goods	0.73%	5.85%	1.38%	6.65%	7.55%	-1.02%	0.03%
Durable Goods	0.01%	-0.33%	0.92%	-0.05%	-0.29%	0.32%	2.35%
Food	0.12%	2.63%	0.05%	2.45%	2.64%	2.30%	1.47%
Energy	2.10%	16.05%	5.20%	20.35%	23.11%	-9.32%	-4.15%
Gasoline	3.90%	27.41%	9.09%	34.17%	41.12%	-16.98%	-7.39%

Source: HR Ratings with seasonally adjusted information from the U.S. Bureau of Labor Statistics, retrieved from FRED.



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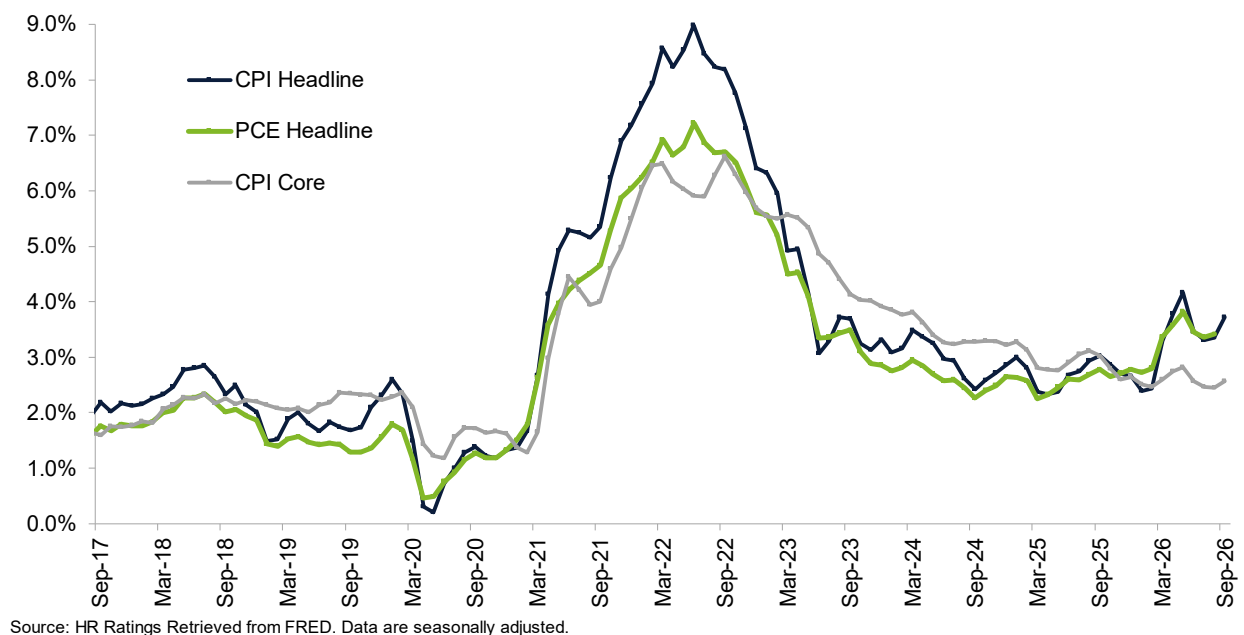
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The shift in the energy component was the largest since March 2026 (10.87% m/m), the month when the conflict between Iran and the United States officially began. Since then, gasoline prices in the U.S. have experienced upward pressures, which have become a key political consideration in the lead-up to the midterm elections on November 3rd. In contrast, the food sector showed less volatility, experiencing a slight increase of 0.05% m/m, the lowest rate since the deflation of -0.01% m/m recorded in March of this year. A spike in diesel prices in recent weeks has the potential to drive up food costs and exacerbate transportation expenses.

The Core CPI exhibited a significant rise in all of its categories, with the services' less energy index increasing 0.35% m/m. Within this group, the rent of shelter component jumped 0.41% m/m, its highest level since April 2026 (0.63% m/m). Additionally, the transportation index climbed 0.72% m/m, impacted by a 1.2% m/m increase in airline fares. Airfares have faced upward pressure due to a global fuel crisis stemming from the Middle East conflict, Ukrainian offensives against Russian refineries, and Houthi attacks on Saudi Arabian energy infrastructure. Goods prices were also notable; the durable goods index registered its largest gain (0.92% m/m) since January 2022 (1.25% m/m), while non-durables rose 1.38% m/m, reaching a five-month high. In recent months, the prices of technological products, including computers and electronics, have experienced a significant spike as a result of the recent surge in the adoption of artificial intelligence. Although some price pass-through from non-core items may already be happening, high inflation is also tied to the persistent strength of the U.S. economy and resilient consumer spending.

On an annual basis (y/y), headline CPI advanced to 3.72% from 3.35% in August, reaching its highest level since May 2026. During the same period, core CPI spiked from 2.45% y/y to 2.57% y/y, as shown in Figure 2. Looking closer, services CPI stood at 3.15% y/y, highlighted by shelter rent rising from 3.03% y/y to 3.22% y/y. For goods, durable items stood at -0.05% y/y, close to posting a positive annual change for the first time since March 2026. Meanwhile, energy inflation surged 20.35% over the past 12 months, reflecting the ongoing geopolitical disruptions. In September, gasoline CPI reached 34.15% y/y, marking seven consecutive months of double-digit increases.

Figure 2. Annual CPI Evolution



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HR Ratings estimates the annual headline CPI will end the year around 3.80%, partly due to expected ongoing pressures from non-core items. For October's monetary policy decision, we expect the Fed to pause, awaiting more data on price trends and the labor market by the end of the year. Nevertheless, a unanimous decision appears unlikely, mainly due to the mixed commentary offered by some FOMC members recently. We anticipate an additional rate increase at the December decision, which would result in the Federal Funds Rate closing at 4.00% to 4.25% by the end of the year.

However, we recognize the current market pressure pushing for additional tightening by the Fed. Following the release of the inflation report, the 2-year Treasury yield hovered around 4.95%, its highest level in two weeks (it currently stands at around 4.75%). Consequently, the odds of a rate hike in October shifted significantly. According to the Chicago Mercantile Exchange (CME), the expected probability of an increase during this month's decision jumped from 22.0% a week ago to around 46.0%, before subsequently moderating to 15.0%. Such fluctuations are significant, given that Chairman Warsh himself has emphasized that financial market signals are a valuable input for monetary policy.



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