14 October 2026

High CPI but probably not in itself enough to tip the scales for October

August CPI surprised on the upside for a 0.3% m/m increase, beating the consensus (0.2% m/m) for the second consecutive month. The surprise was broadly based and the annualized 3-month change for core CPI is now back above 3%. Several members have indicated that they want to see more data before hiking again, which has raised the bar for another increase already at the 28 October meeting. We think the totality of data this week will decide but stick to unchanged in October for now.

Key points

- Core CPI 0.3%, 2.6% y/y, consensus 0.2%, 2.5%, previous 0.3%, 2.4%
- Headline CPI 0.6%, 3.7%, consensus 0.6%, 3.6% y/y, previous 0.4%, 3.4% y/y
- The upside surprise was broadly based for both goods and services
- Our preliminary estimate for core PCE is 0.31%
- Several Fed members have said that the Fed can wait before hiking again
- We think totality of data this week will decide the October decision
- The outcome will support Warsh's view that the inflation trend has not "meaningfully" improved

Broadly based increases

Core CPI increased by 0.33% in September, above our and the consensus expectations for a slightly above 0.2% month-on-month increase. The year-on-year rate increased from 2.4% to an above expectation of 2.6%. The surprise was broadly based. The monthly increases in goods prices (core goods 0.25%, core goods ex used cars and trucks 0.18%) and rents (0.33%) were all 0.1-0.15 percentage points above our forecast. Services excluding rents were also higher than expected. Tourist services, air tickets (1.2%) and hotels (2.0%), contributed to faster price increases though in both cases slowing from the previous month. Headline CPI (0.6% m/m) was in line with estimates. Energy prices increased slightly less than our forecast but at a solid pace (5% m/m) while food prices were unchanged.

Second consecutive disappointment

The monthly price changes for the core CPI are still within the volatile range during the past two years. Monthly core CPI has tended to surprise on the downside this year but has been higher than expected during August and September. The 3-month annualized change is now at the high end of the recent range and above 3%. This will concern some members of the Fed, who often focuses on this measure.

Preliminary estimate for core PCE is 0.31%

The core PCE has remained the Fed's key inflation objective. Our preliminary estimate for core PCE in September, given the information in the CPI, is 0.31%. Tomorrow's September PPI will provide more input for the core PCE, however.

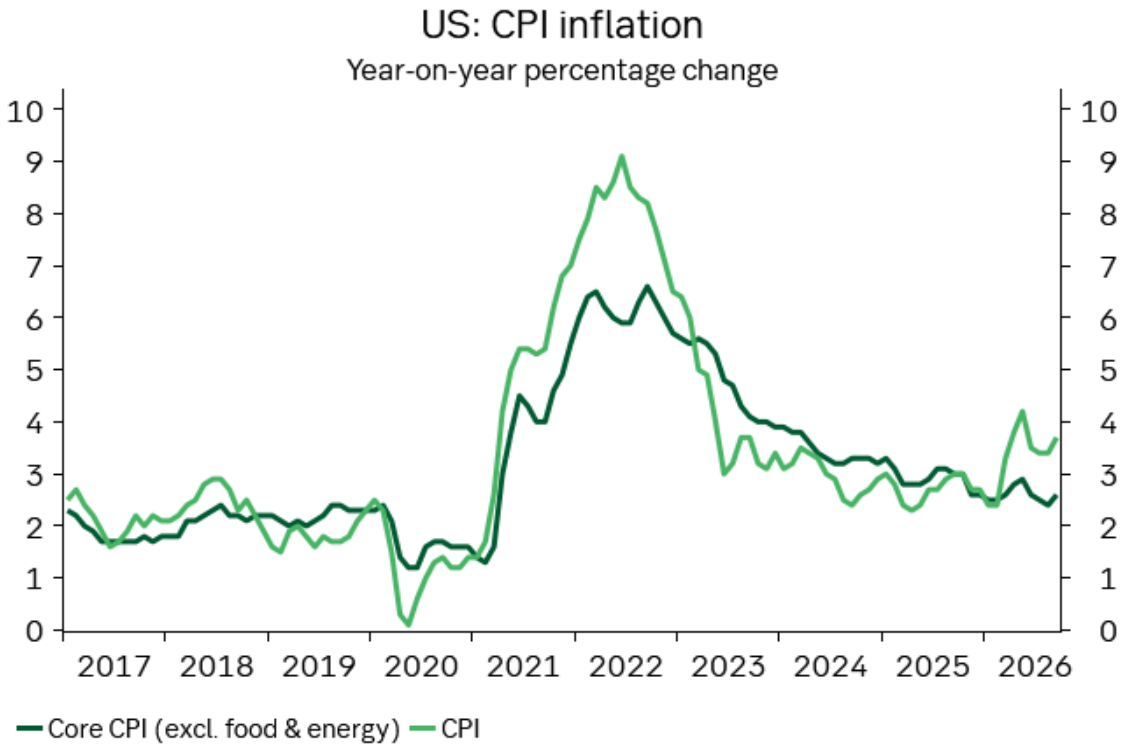
Enough for an October rate hike?

Several Fed members have indicated that they want to evaluate the effects of the September rate hike before tightening again, most likely at the December meeting. This raises the bar for another increase at the 28 October meeting. Before the September CPI, markets priced a small 20% probability for an October hike. After the data, markets are back to pricing almost 50% probability for an increase. Data during the rest of the week (PPI, retail sales and industrial production) and anecdotal comments in the Fed's Beige Book will also be important to watch for both the implications for PCE inflation and for growth and pricing power. August retail sales surprised strongly on the upside and another very strong report in September may signal increased scope for companies to pass through cost increases to customers. We stick to our view of an unchanged rate at the October meeting but the totality of data this week, as well as the events in the Middle East and energy prices, will be important.

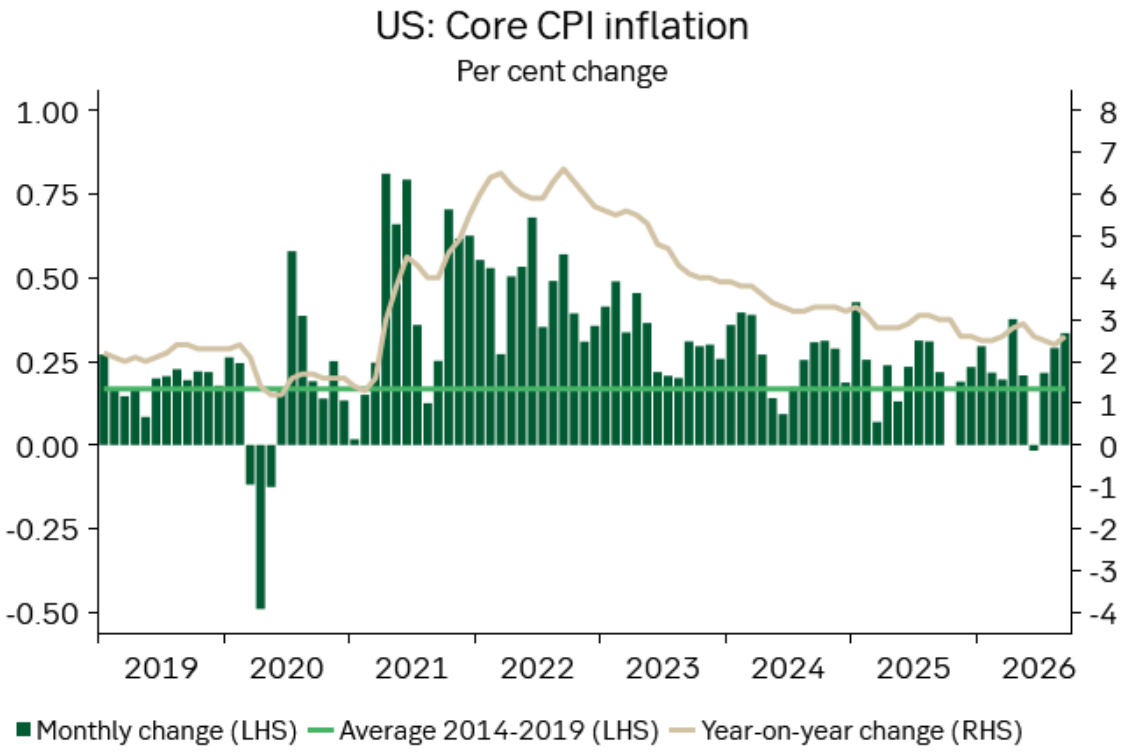
Also of interest will be the fireside chat with Fed Chair Kevin Warsh and the IMF's managing direction Kristalina Georgieve early Friday morning. Kevin Warsh does not want to guide markets but his hawkish comments at both Jackson Hole and after the September meeting have tended to raise market expectations for rate hikes. Kevin Warsh has said that he is focusing on the broader trend rather than individual months, but had already earlier concluded that the slowdown in the CPI was not enough to convince him that the trend had meaningfully improved. The September data will not change his views on the trend.

Short-term upside risks have increased

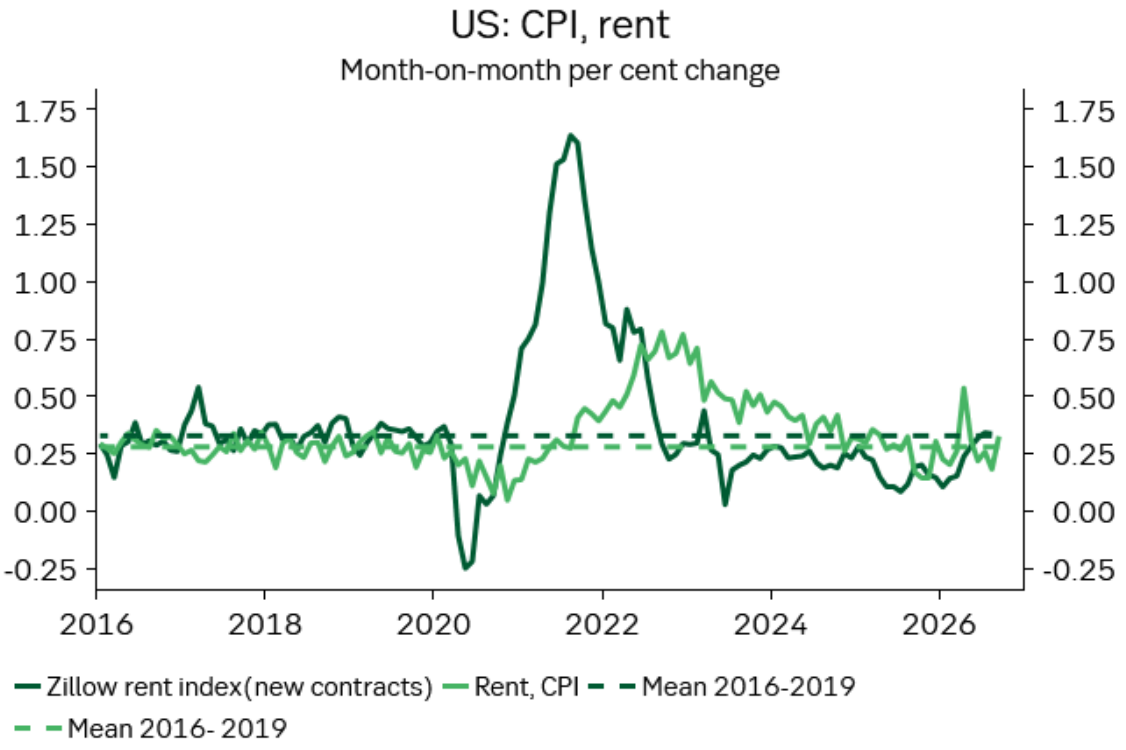
The renewed increase in energy prices has delayed the slowdown for headline inflation and has raised the risks for indirect effects from, for instance, higher transportation costs. Some signs of higher goods prices are emerging, and we have revised our near-term forecast slightly higher. There are also some signs that rents could start to rise at a slightly higher rate again, judging from the changes in market-based Zillow rents. This could reflect increased demand for rentals, driven by deteriorating affordability to purchase a home on the back of higher mortgage rates. Wage inflation continues to slow, however, which implies that any upturn in inflation will be temporary. The inflation outlook is significantly more uncertain than normal, but we continue to predict that underlying inflation trends will improve as temporary impulses from tariffs, energy prices and the AI build-out fade. Our forecast implies that both core CPI and core PCE will back at the target by the end of 2028.



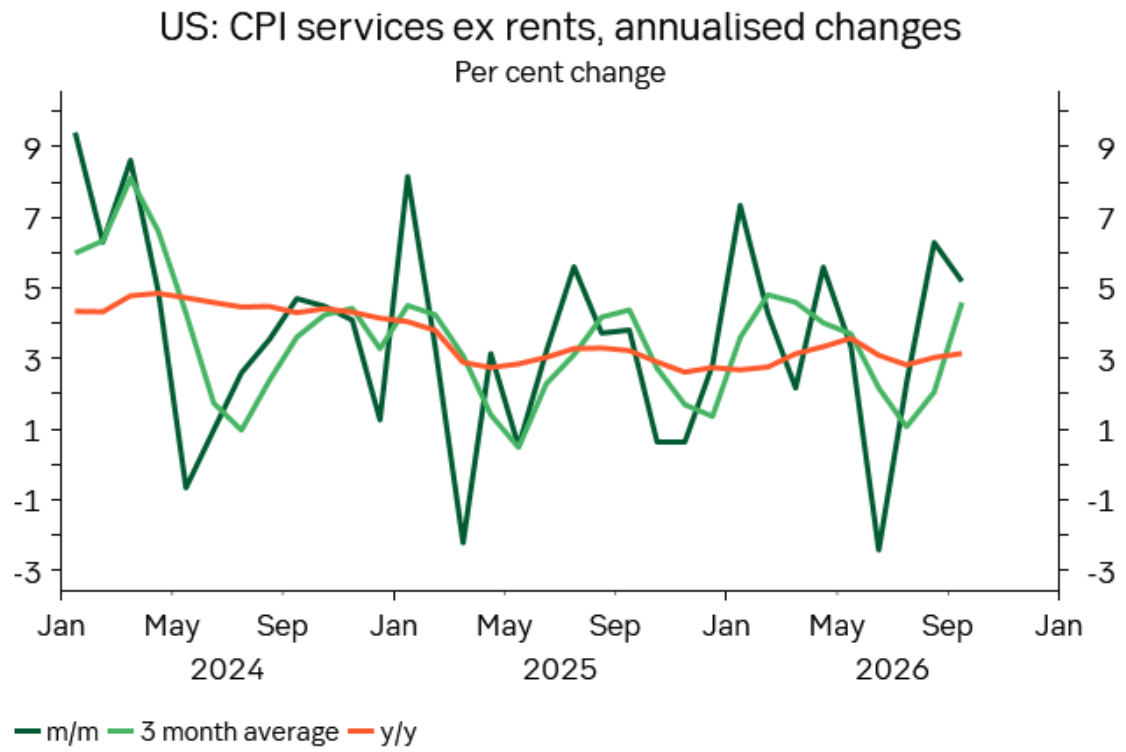
Source: U.S. Bureau of Labor Statistics (BLS), Macrobond, SEB



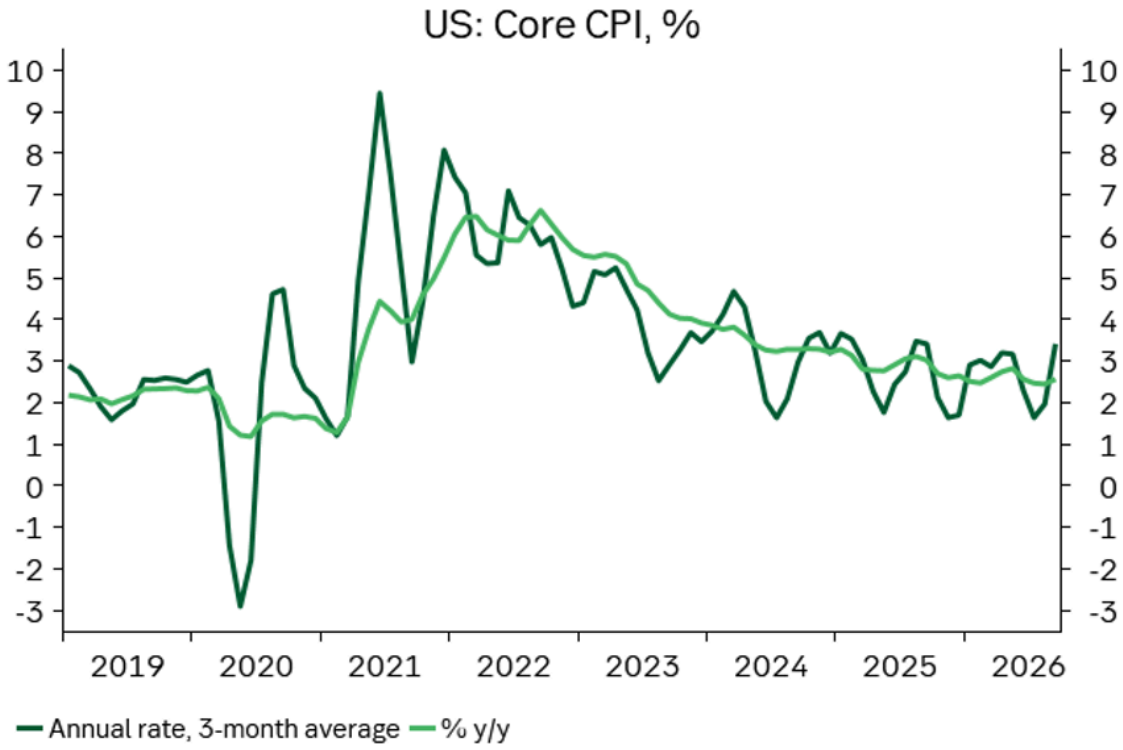
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