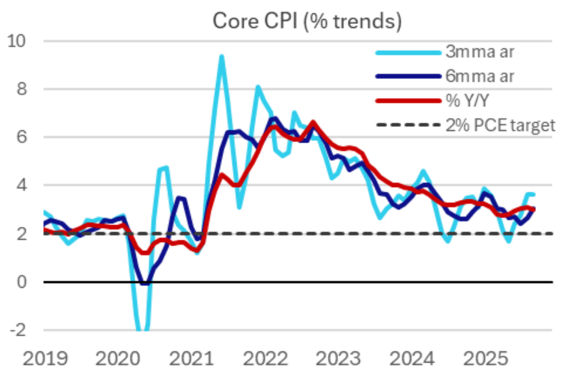
The following offers a succinct look at the main macroeconomic developments across inflation, the labor market and activity indicators since the last FOMC meeting. It's part of the MNI US Fed Preview (here).

Macro Developments Since The September 16-17 FOMC Decision

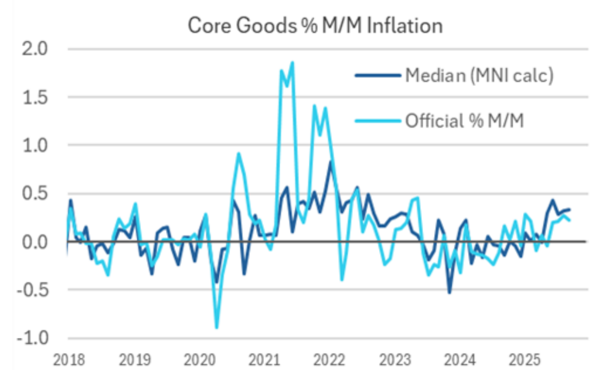
What would have been a lighter inter-meeting period for top tier data releases has been reduced even further with, at typing, the second longest US government shutdown in history. It has seen the FOMC going without some major official releases, including the nonfarm payrolls, retail sales and PPI reports for September. The BLS made an exception for the September CPI report on social security payment grounds otherwise both the Fed and markets alike have been going off alternative data sources when assessing latest economic developments.

Inflation: A Lone CPI Report Surprises Softer, Data Quality Concerns Increase

The September CPI report was clearly softer than expected, with core inflation at a seasonally adjusted 0.23% M/M (unrounded consensus of 0.32) after 0.35% in August, back to the pace seen in June after two 0.3% readings. Core goods were one weak point with markets still firmly on tariff passthrough watch, increasing 0.22% M/M (consensus 0.34) after 0.28% M/M in August with a surprise decline in used car prices partly at play. Our look at broad price pressures within the core goods basket suggests September saw a very similar picture to August, with the peak coming back in June rather than seeing any additional acceleration in tariff passthrough. It continues to run a little hotter than the official core goods series but with a smaller gap than a few months ago. Elsewhere on the services side, rental inflation was softer than expected and included a sizeable reversal of OER inflation after a southern-based spike the prior month. The 0.26% M/M average for rental inflation over August and September sees it maintain its return to pre-pandemic run rates as has broadly been the case since the middle of the year. Core services excluding housing were still firm however at 0.35% M/M and are now running at 4.7% annualized over three months or 3.3% over six months, but this metric has poor correlation with its PCE counterpart. Taking more of a step back, core CPI inflation surprisingly eased back a tenth to 3.0% Y/Y after two months at 3.1%, still within a 2.8-3.3% range seen since mid-2024. Three-month core CPI inflation stands at 3.6% annualized whilst the six-month is softer at 3.0% annualized.

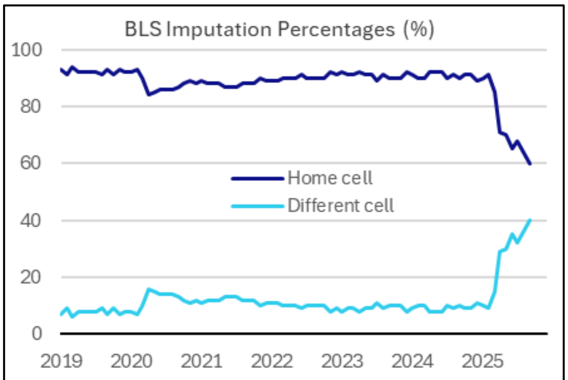


Source: BLS, MNI



Source: BlS, MNI. Median across 56 core goods items.

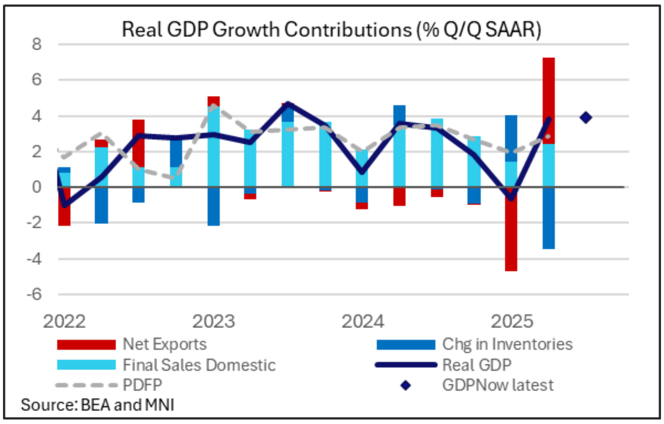
When thinking about how the Fed will view this report, it's important to note that translating it to core PCE with no publication of a PPI report would have been hard enough this month (CPI provides ~65% of inputs), but uncertainty is greater still with a deterioration in the quality of the CPI report itself. September saw 40% of sources using "different cell" imputation, a new high after 36% in August as budget and staff cuts have an increasingly large impact. It has historically averaged closer to 10% and peaked at 15% in the pandemic when in-person surveys weren't possible, but it jumped to ~30% April and has continued to increase since. This September release shouldn't have been impacted by the government shutdown in the sense that the data would have already been collected. The shutdown was however seriously calling the quality of the subsequent October report into question, although the White House's Rapid Response account on X.com suggests that the BLS may not release it because it was unable to conduct the in-person surveys as normal during the month. As for alternative timely indicators, the Fed's Beige Book published Oct 15 was arguably the most inflationary Beige Book of 2025, certainly joint with June which saw 8 (of 12) districts characterize inflation pressures as "moderate", despite weaker growth conditions.



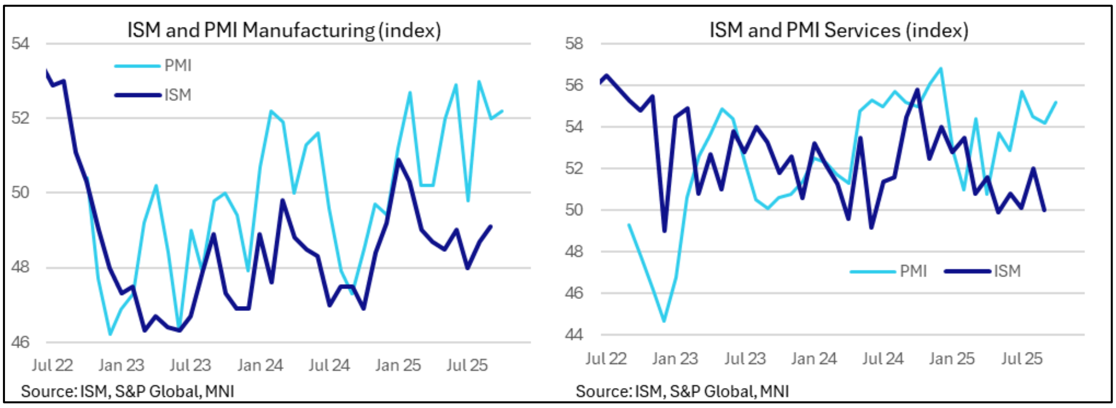
Source: BLS, MNI.

Growth: Robust Official Data Before More Mixed Private Surveys

With the sole major inflation report accounted for, we now turn to activity and labor market developments seen since shortly after the last FOMC meeting. Activity data continued a theme of surprising robustness the week after the FOMC decision, with the third release of Q2 national accounts seeing real GDP growth revised higher again from 3.3% to 3.8% annualized. Consumption helped drive it and in turn painted a much more encouraging picture for final sales to private domestic purchasers – a favorite of Fed Chair Powell's – at 2.9% (revised from 1.9%) after the 1.9% in Q1 and 2.9% averaged in 2024. The following day, the monthly personal income and outlays report for August suggested this robust consumption growth continued well into Q3, rising a strong 0.4% M/M. Beyond that however and we are largely in the dark when it comes to official data, although it's left economic activity clearly on a strong footing with the last update from the Atlanta Fed's GDPNow pencilling in real GDP growth of 3.9% for Q3.



Taking up some of the data slack, private sector surveys have been mixed whilst the Fed's Beige Book suggested softer activity. ISM manufacturing index was little changed in September at 49.1 (highest since February, albeit by 0.1pt) although the ISM services index disappointed as it dipped 2pts to 50.0 for its lowest since May with new orders fully rewinding what had been a strong increase in August for also back towards the breakeven 50 level. More encouragingly, the latest flash S&P Global US PMI surveys for October were robust with the composite rising to a three-month high of 54.8 on the back of services strength, but there remains a signficant discrepancy between the optimistic PMIs and much more subdued ISM surveys. Meanwhile, consumer confidence softened slightly in October according to the University of Michigan and Conference Board's consumer survey will be released on day one of the two-day FOMC meeting, although Powell has cautioned on the poor correlation with realized consumption. Looking at overall economic activity, the Beige Book reported that while the same number of districts (4) reported declining activity, this time 5 saw little/no change in activity (2 prior) and just 3 reported growth (vs 6 prior). Despite the more mixed evidence from recent private releases, the prior momentum in the economy has seen Fed officials including both Powell and Waller ponder the gap between strong economic data and a weak labor market, including which might be a more reliable indicator.



Labor: Various Indicators Point To Signs Of Slack Still Slowly Building

We may not have received the nonfarm payrolls report for September but the labor market is one of the easier areas of the economy to track in the absence of official data. When compiling our own "shadow" employment report, we assessed that alternative private sector indicators of jobs growth paint a mixed picture on the extent of the latest additional softening beyond that seen in latest BLS payrolls data to August. The median primary dealer analyst eyed a 60k increase in nonfarm payrolls growth in September although private sector employment growth in the ADP employment was then much weaker than expected at -32k. Two indicators that have recently been un-paywalled in response to the government shutdown offer alternative tracking estimates for jobs growth. Revelio Labs estimated jobs growth of 60k,implying no further softening from recent trends in the latest BLS payrolls data published to August (3mth average 29k, 6mth 64k or private sector averages of 29k and 67k) whilst the Carlyle Group's estimate sat between Revelio and ADP with a projected 17k increase. With ratios keenly watched by FOMC members against a backdrop of large changes in labor supply, various unemployment rate metrics point to further increases including to new recent highs in the Chicago Fed's final indicators report at 4.34% in September. Recall that the September SEP showed the median FOMC participant expecting further increases in the months ahead to 4.5% in Q4, before slowly easing to 4.4% in 4Q26 and 4.3% in 4Q27. State-level jobless claims data look contained though, with the labor market still best characterized as in a low fire, low hire state. For a comprehensive summary of these labor metrics, see our full report found here, noting that weekly jobless claims data have been updated since then but haven't materially altered the picture.