

U.S. Inflation Insight: September 2025

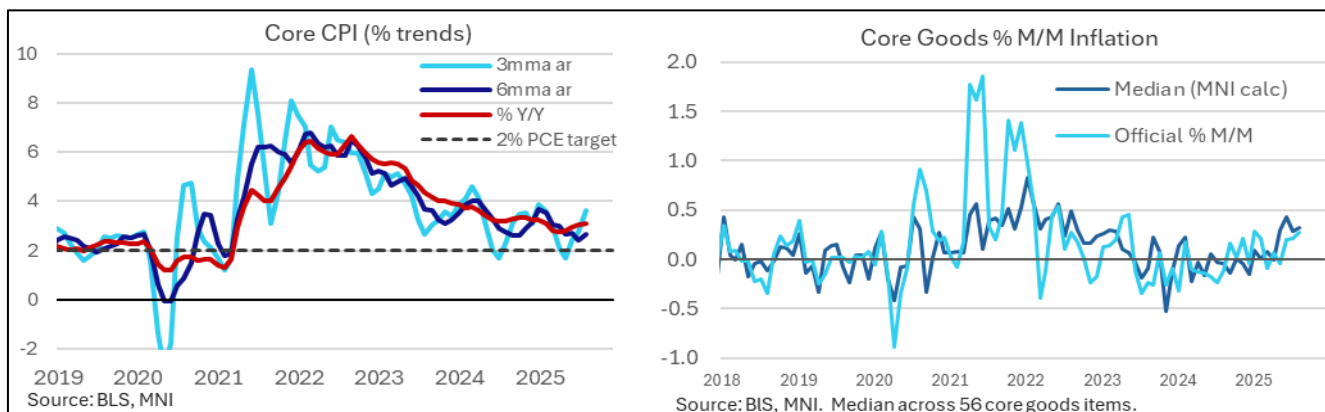
MNI View: Solid But Could Have Been Firmer

Sep 12, 2025 – By Tim Cooper and Chris Harrison

PPI started this week's inflation releases with a report that relieved concerns about tariff-related price pressures whilst highlighting the volatile and revision-prone nature of the trade services category. CPI then followed and was marginally stronger than expected on a M/M basis for both headline and core but with a more benign readthrough to core PCE – analyst estimates are tracking at ~0.20% M/M. Underlying core goods inflation is still running at a robust monthly clip, as it has been since April when it stepped markedly higher, although its peak for now appears to have been in June.

	July	August
Core	0.32%	0.35% (MNI unrounded Median 0.32%)
Headline	0.20%	0.38% (MNI unrounded Median 0.36%)
Core Y/Y	3.06%	3.11% (MNI median 3.10%, av 3.10%)
Headline Y/Y	2.70%	2.92% (MNI median 2.90%, av 2.89%)
(M/M taken only from unrounded, Y/Y more broadly)		

- Both headline and core CPI monthly inflation rates were a touch higher than expected in August compared to the median of unrounded analyst estimates we'd seen, although it was close enough that Y/Y rates were essentially as expected including core CPI accelerating further to 3.11% Y/Y.
- Headline CPI accelerated to 0.38% M/M, helped by a three-year high for food-at-home at 0.58% M/M.
- Core CPI accelerated 3bps to 0.35% M/M (unrounded median estimate 0.32), with a mild upside surprise for core services at 0.35% M/M and a minor downside surprise for core goods at 0.28% M/M.
- Core goods was a little shy of expectations for the low 0.30s, seemingly down to used car prices on the soft side at 1.0% M/M, still a 7-month high but vs expectations of a little above that figure.
- Median core goods inflation continued to track a little stronger than the published core goods series. It continues to run at a strong monthly pace, with three of the past four months at 0.3% M/M plus June at 0.44% M/M, but it's notable that June has been the peak for monthly price increases for now.
- Supercore CPI was a little soft at 0.33% M/M vs closer to 0.40% expected (though again there was a wide range of estimates from 0.3-0.6%).
- Rents/OER meanwhile were above expected at 0.30% and 0.38% respectively (prior: 0.26% / 0.28%) for four- and five-month highs.
- Released a day earlier, August's PPI report showed softer price pressures compared with July, including large downside surprises in some of the main final demand metrics. The exception was an in-line ex-food/energy/trade figure which underlines uncertainty and volatility in the trade services PPI category.
- The PPI report will relieve some concerns about tariff-related price pressures that arose from July's outsized PPI gains, which turn out to have been largely driven by a volatile measure.
- Core PCE-relevant items from CPI were on net benign, despite a slightly above-consensus core CPI. Multiple sell-side analysts have revised their core PCE % M/M projections to the downside – we estimate a median estimate of 0.20% (range 0.18-0.25) vs a median a little above 0.3% at the start of the week.
- That would see at least a three-month low on a M/M basis for core PCE, but also a slowdown on a six-month annualized rate basis to 2.4% from 3.0% prior (3mma steady at 3.0%).
- 27bp of cuts are still priced for next week's FOMC decision and a cumulative 71bp of cuts to year-end.

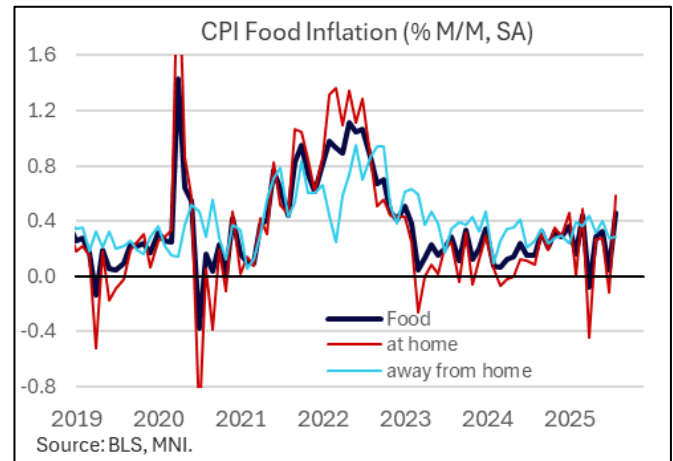


CPI Details

3-Year High In Food-At-Home CPI Fuels Above-Expected Headline

August's headline CPI reading of 0.382% M/M unrounded (0.197% prior) slightly exceeded median expectations of 0.36% M/M for easily the highest print since January. Core CPI came in at a slightly-above consensus 0.346% unrounded (0.322% prior, 0.32% MNI unrounded median).

- The Y/Y prints were marginally above-expected at 2.92% for headline (2.70% prior) and 3.11% for core (3.06% prior), respectively 7-month and 6-month highs.
- The headline "beat" came in spite of a slightly cooler rise in energy CPI (0.7% vs around 0.8% expected, -1.1% prior). While motor fuel prices rose basically as expected (1.8% after -2.2%), electricity prices appeared to be on the moderate side (0.2% vs -0.1% prior, no consensus) with gas utility CPI falling 1.6% after a 0.9% fall in the previous month.
- Food prices however were on the high side of expectations: the 0.46% M/M rise was a 31-month high, marking a sharp acceleration from under 0.1% prior and was about 0.1pp higher than the MNI median expectation.
- While food away from home continued to print solidly (0.3%, same as July), food at home jumped to 0.6% from -0.1% - the unrounded 0.58% rise was the biggest in 36 months.
- There was a noticeable pickup in the meats/poultry/fish/eggs (1.0% after 0.2%) and fruits and vegetables (1.6%, highest since early 2022 after 0.0%) categories, which combined make up 3% of the total CPI basket.
- Beef and veal prices are rising at some of their fastest rates in years (2.70% M/M), while tomato prices jumped 5.1% M/M, fastest since December 2017. We suspect there will be speculation that tariffs may be helping fuel the rise in these categories, either directly or indirectly.



Summary of Key Categories Vs Analyst Consensus (Red=Higher Than Avg Expectation, Green = Lower)

mni	Headline			Core		Supercore	Food	Energy	
	NSA	NSA	NSA	SA	SA			gasoline	
	Index	Y/Y	Y/Y	M/M	M/M				M/M
Aug (actual)	323.976	2.92	3.11	0.382	0.346	0.33	0.46	0.69	1.8
Aug (median)	323.967	2.90	3.10	0.34	0.31	0.38	0.35	0.78	1.7
Aug (mean)	323.953	2.89	3.10	0.34	0.31	0.42	0.34	0.80	1.7
Bbg consensus	323.921	2.9	3.1	0.3	0.3				
Jul (actual)	323.048	2.70	3.06	0.197	0.322	0.48	0.05	-1.07	-2.17

Core CPI Categories Mixed Vs Expectations, PCE Looks Benign

Core inflation categories were mixed in August vs expectations.

- Core goods prices accelerated to 0.28% M/M from 0.21% prior, a little shy of expectations of a rise to the low 0.30s. This slight "miss" appears down to used car prices on the soft side of expectations at 1.0% M/M, still a 7-month high but vs expectations of a little above that figure. New vehicle prices rose 0.3% (0.0% prior), likewise an 8-month high but some had seen higher.

- Additionally, medical care commodities were notably weak at -0.3% M/M (+0.1% prior). Conversely, there was some upside in tariff-related core goods categories including apparel (jumped to 0.5% from 0.1% and vs 0.2% expected). But overall core goods ex-used vehicle inflation was exactly the same in August (0.17% M/M) as in July, suggesting limited pressure on this front.
- In services, Supercore came in a little soft at 0.33% M/M vs closer to 0.40% expected (though again there was a wide range of estimates from 0.3-0.6%).
- Breaking that down, rents/OER were above expected at 0.30% and 0.38% respectively (prior: 0.26% / 0.28%). That's a 5-month high for OER and 4-month high for rents, both of which have accelerated since recent lows set in May. Lodging meanwhile rebounded way more than expected at 2.3% M/M (0.4% expected) after 5 consecutive monthly contractions.
- Ex-shelter services prices decelerated to 0.26% M/M from 0.54% prior for a 3-month low. One downside surprise of note here is medical care printed a 29-month low -0.14%. This had been expected to see downward payback after +0.79% in July was a 34-month high, but the reversal appears to have gone further than expected.
- PCE implications look benign. When we look at PCE-related categories that come from PPI and not CPI such as airfares (5.9% rise, around double the expected rate and vs 4.0% prior) and auto insurance (flat, vs +0.4% expected), those are probably on net a boost for core CPI vs expectations - so the PCE readthrough from these is a little softer than the core print would suggest. We would also point to dental services inflation which fell 0.7% M/M after +2.6%, marking the weakest month for this category since 2018 - this feeds into core PCE and looks likely to keep post-CPI estimates contained at or perhaps slightly below the core CPI reading.

Summary of Key Core Categories Vs Analyst Consensus (Red=Higher Than Avg Expectation, Green = Lower)

mni	Core	Supercore				Core goods						Core services					
	SA			used cars		apparel		OER		rents		lodging		airfares		auto ins.	
	M/M	M/M	M/M	M/M	M/M	M/M	M/M	M/M	M/M	M/M	M/M	M/M	M/M	M/M	M/M	M/M	
Aug (actual)	0.346	0.33	0.28	1.04	0.50	0.35	0.38	0.30	2.29	5.87	-0.02						
Aug (median)	0.31	0.38	0.30	1.20	0.21	0.32	0.27	0.23	0.4	3.0	0.4						
Aug (mean)	0.31	0.42	0.34	0.96	0.21	0.33	0.27	0.23	0.4	3.3	0.4						
Bbg consensus	0.3																
Jul (actual)	0.322	0.48	0.21	0.48	0.07	0.36	0.28	0.26	-1.02	4.04	0.13						

Volatile Medical Services A Major Drag On Core CPI

Core goods prices (as opposed to services) drove the broader sequential increase in core CPI in August to 0.35% from 0.32%, which in turn was due entirely to vehicle price rises. See table below for percentage point contributions to core CPI vs July's report (note contributions don't add up exactly due to rounding).

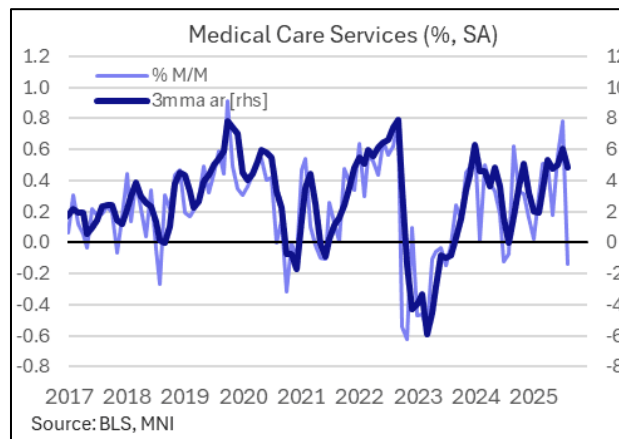
- As implied by the moderation in supercore, the cooling on overall core services' contribution to core CPI came despite a decent pickup in shelter inflation, including both housing and lodging (combined represented a bit more than half of all core CPI at a 0.19pp contribution, up 0.10pp from the prior month).
- Conversely, the big downside sequential drag was in medical services, which - driven by deflation in dental services, and to a lesser extent hospital services - saw a multi-year lows after multi-year highs in July. Smoothing it out, though, medical care services CPI is running at about a 5% 3M/3M annualized rate and the August drop looks like an anomaly.
- This pullback almost singlehandedly offset the increasing sequential pressures from shelter, subtracting 0.01pp from core, 0.08pp less than in July.

US: Contributions to % M/M Core CPI

	Jul	Aug	chg
Core CPI	0.32	0.35	0.02
core goods	0.05	0.07	0.02
used cars	0.01	0.03	0.02
new cars	0.00	0.01	0.01
other goods	0.04	0.02	-0.01
core services	0.28	0.26	-0.01
housing	0.11	0.15	0.04
OER	0.09	0.13	0.03
primary rents	0.02	0.03	0.00
lodging	-0.02	0.04	0.06
medical serv	0.07	-0.01	-0.08
car insurance	0.00	0.00	-0.01
airfares	0.04	0.06	0.02
other services	0.06	0.02	-0.04

Source: Bloomberg Finance L.P., BLS, MNI.

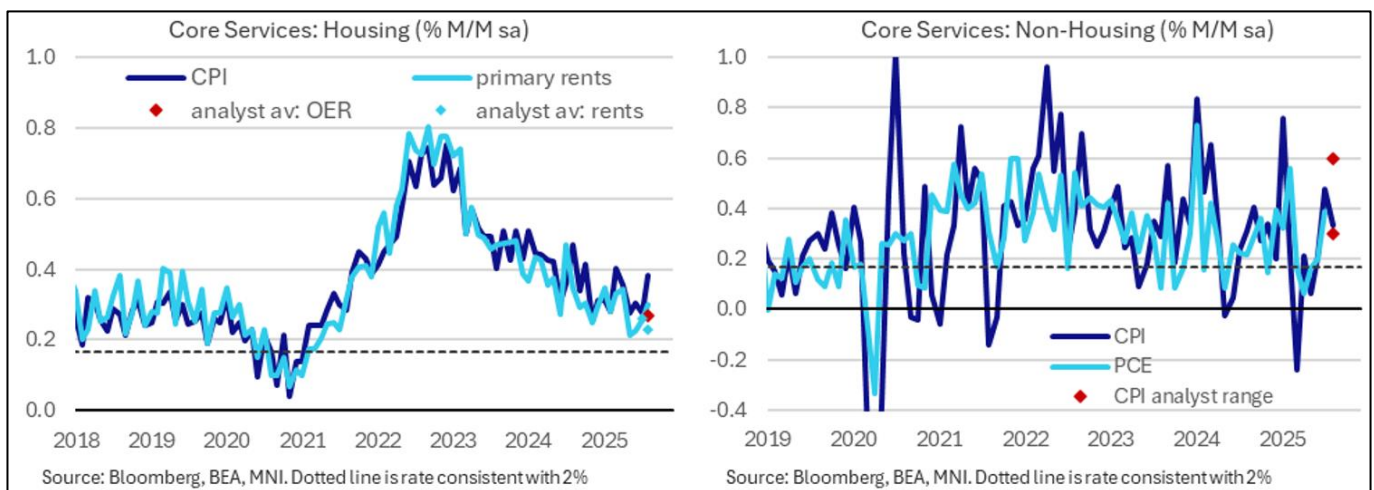
Figures don't always add exactly due to rounding



Supercore CPI At Low End Of Expectations, Housing Above- Expected

Supercore CPI came in at the lower end of expectations at 0.33% M/M (had seen range of 0.3-0.6%), down from 0.48% prior.

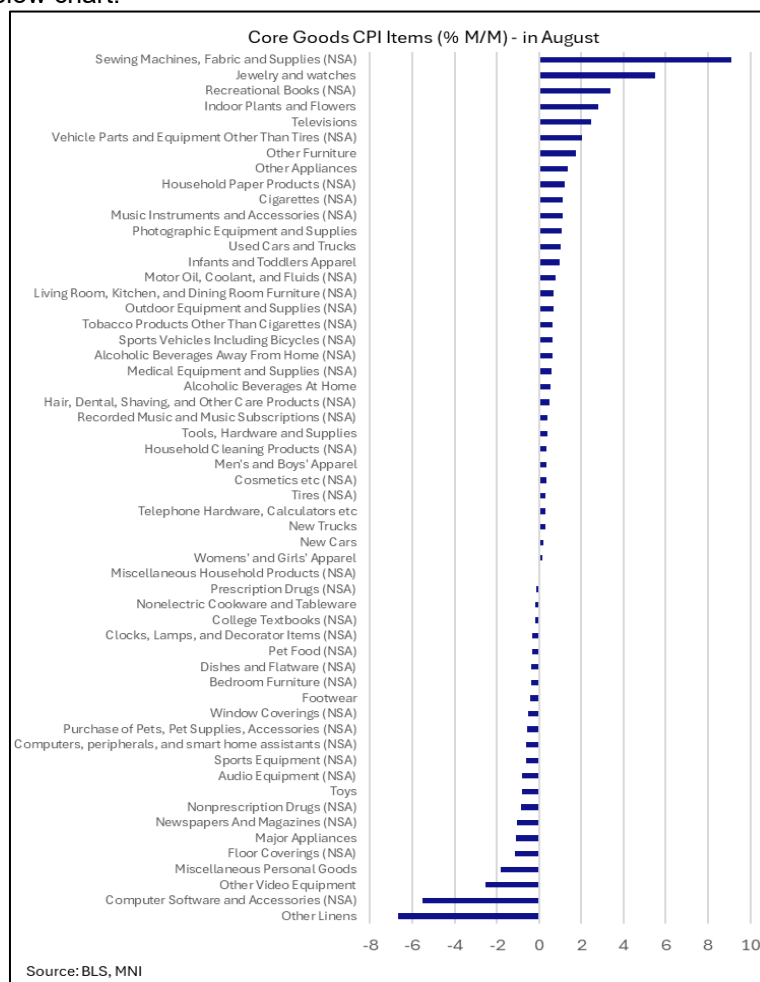
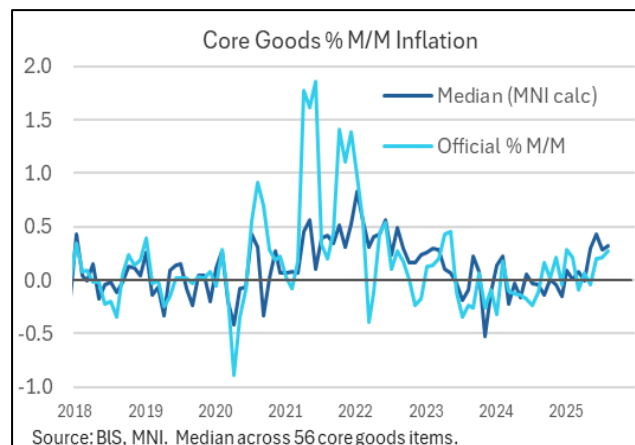
- Core services excl OER & primary rents ('supercore'): 0.33% M/M after 0.479%. Latest 3mth av of 0.34%
- Core services excl all shelter: 0.264% M/M after 0.538%. Latest 3mth av of 0.387%
- Limited analyst estimates for ex OER & rents had averaged 0.42% M/M, ranging from 0.3 to 0.6



Further Robust Core Goods Details But No Additional Acceleration

Median core goods CPI inflation continued to track a little stronger than the published core goods series in August, albeit with its smallest overshoot since this median first accelerated strongly in May. With three of the past four months at 0.3% M/M plus June at 0.44% M/M, it continues to run at a strong monthly pace but of note when thinking about tariff passthrough lags, June has been the peak for monthly price increases for now.

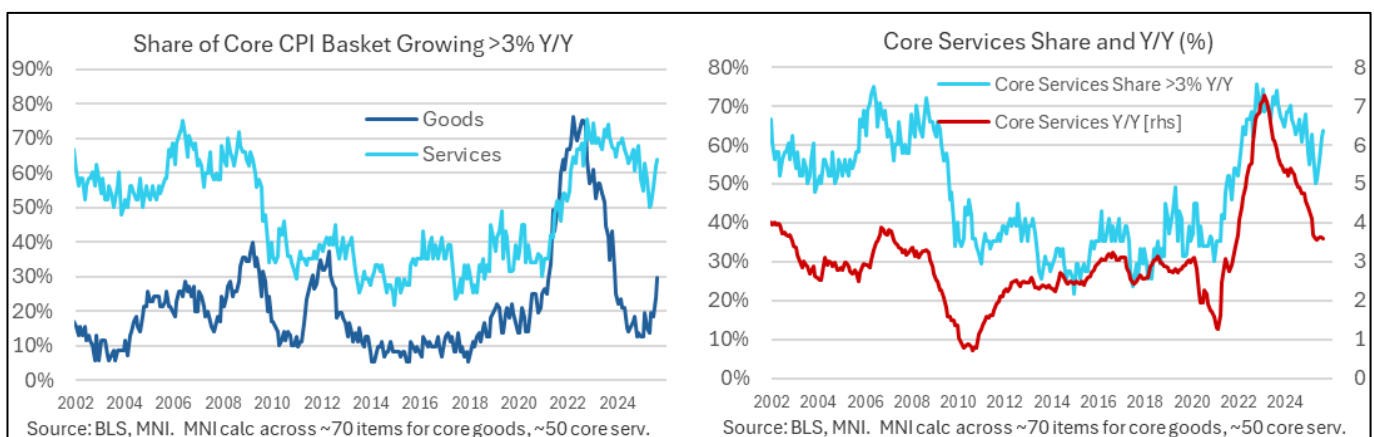
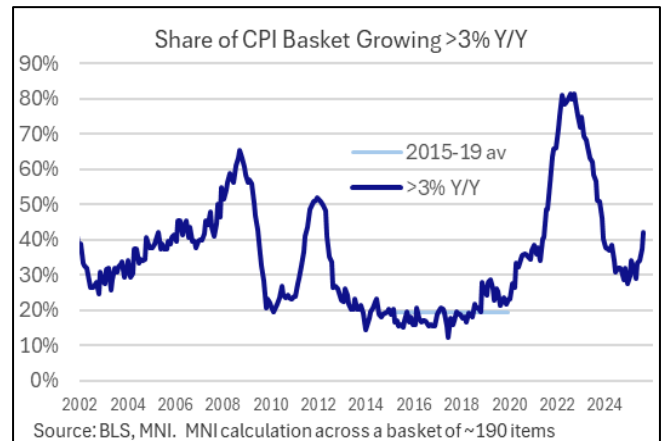
- Core goods CPI inflation was reasonably close to analyst expectations in August at 0.28% M/M vs expectations for the low 0.30s, which the small 'miss' in part to a softer than expected 1.0% M/M increase in used car prices.
- In doing so, it accelerated after two months at 0.2% M/M in Jun-Jul following three months nearly flat after an average 0.25% M/M starting the year in Jan-Feb.
- For a better idea of underlying core goods inflation for signs of tariff pressures, we calculate that median core goods inflation increased 0.32% M/M in Aug after 0.28% in Jul, 0.44% in Jun and 0.29% in May.
- This median marks a clear acceleration from the first four months of the year averaging 0.04% M/M and an average -0.03% M/M through 2024.
- The three strongest categories in our calculations: sewing machines, fabric & supplies +9.1%, jewelry & watches 5.5% and recreational books 3.4%.
- Weakest: other linens -6.7%, computer software & accessories -5.5% and other video equipment -2.5%.
- As always, beware the number of categories at this level of detail that are using non-seasonally adjusted data - see the below chart.



Inflation Breadth Widened Further In August

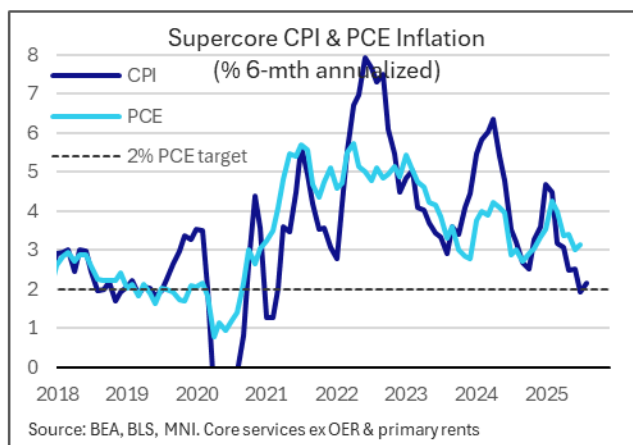
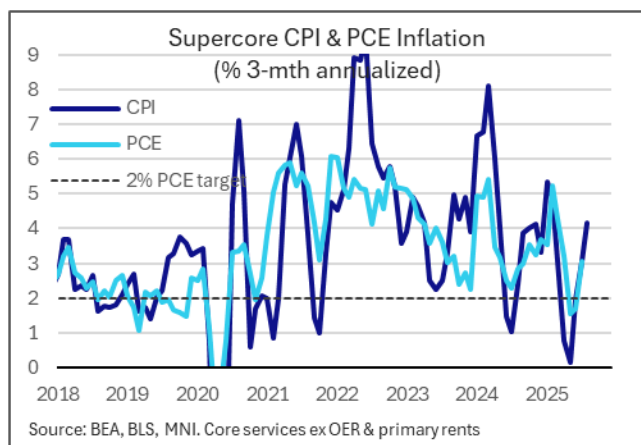
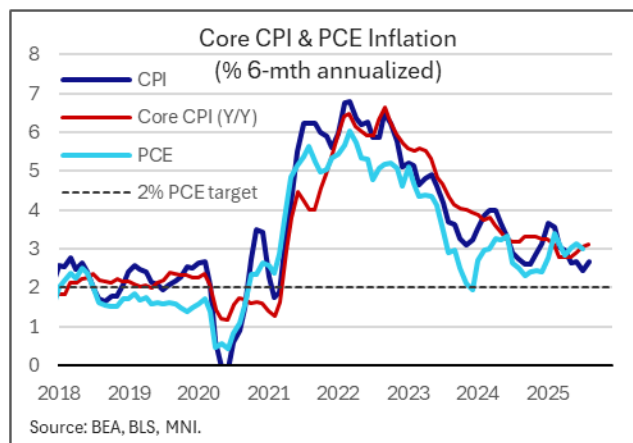
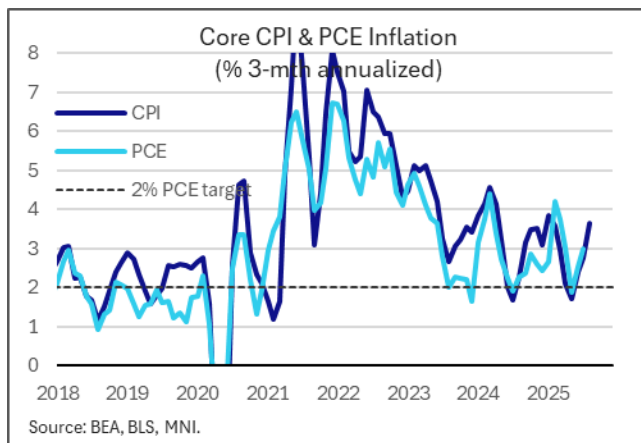
Our calculations show a further widening in inflationary pressures in August, on a headline but also notably both core goods and core services basis.

- 42% of approximately 190 items across the entire CPI basket saw inflation in excess of 3% Y/Y in August, the highest share since Nov 2023.
- It's up from 37% in July, extending increases from 29% in April and a recent low of 28% in Dec 2024. It compares with an average of 24% in 2019 or 19% through 2015-19.
- Shares of those with sharper inflation rates are increasing as well, with 27% seeing >4% Y/Y inflation (vs 25% in Jul and 19% in April).
- Notably, the core goods equivalent has unsurprisingly increased strongly in the past two months but core services has also extended a recent bounce.
- Specifically, 30% of core goods items are running at 3% Y/Y or higher, after 24% in Jul and 14% in April. This averaged 18.5% in 2019 or 12% through 2015-19. As the charts show though, this should be seen in the context of post-pandemic surges when this share peaked at ~75%.
- 64% of core services are running at least 3% Y/Y, after 62% in Jul and 50% in April. This averaged 38% in 2019 or 34% through 2015-19. It's a volatile measure but the recent uptick has been sizeable.
- The official measure of core services inflation doesn't show this renewed uptick yet, with five consecutive months at 3.6% Y/Y.



Core CPI Trends Running Below Stubborn Y/Y

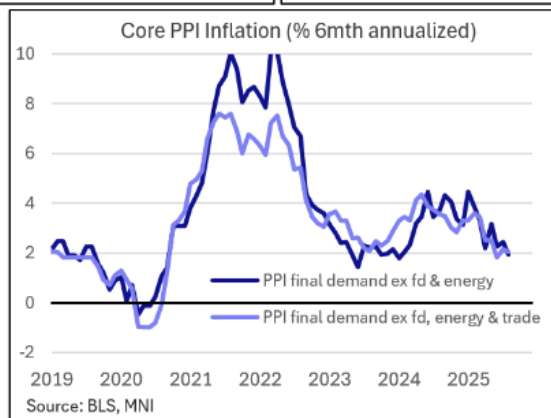
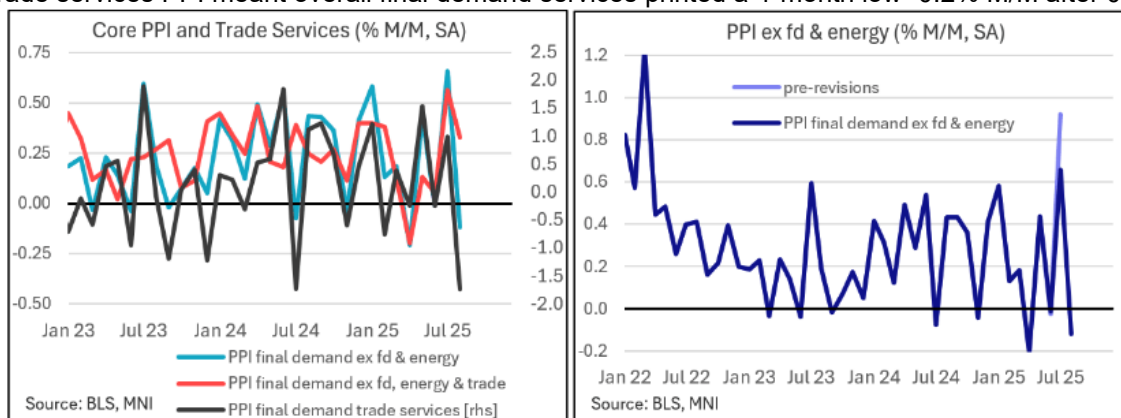
- The acceleration in core CPI inflation was very much as expected, technically a fourth consecutive month on an unrounded basis to 3.11% Y/Y.
- A reminder here that the Y/Y is calculated from NSA data whereas the M/M (and subsequent trend rates) is calculated from SA data.
- Recent trend rates sit either side of this, with the three-month at a strong 3.6% annualized (accelerating from 2.8% in July) whilst the six-month sits softer at 2.7% annualized (but still accelerated from 2.4%).
- It marked the fourth consecutive month that the six-month is running below the Y/Y, pointing to some downward momentum ahead, but with that three-month offering a warning of how long this might last.
- Supercore inflation helped drive these recent trend accelerations, with the three-month at 4.2% vs 3.1% in Jul and six-month at 2.2% vs 1.9%.



PPI Details

Volatile Trade Services Cool PPI More Than Expected (1/2)

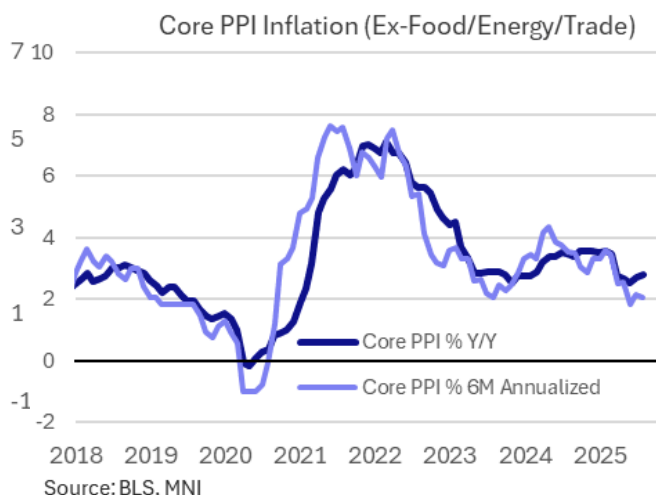
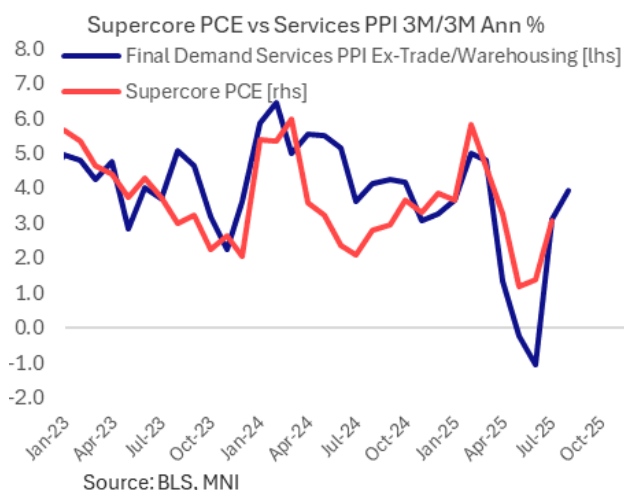
- August's producer price index report showed softer price pressures compared with July, including large downside surprises in some of the main final demand metrics. The exception was an in-line ex-food/energy/trade figure which underlines uncertainty and volatility in the trade services PPI category. This report will relieve some concerns about tariff-related price pressures that arose from July's outsized PPI gains, which turn out to have been largely driven by a volatile measure.
- The main headline PPI final demand unexpectedly fell by 0.1% M/M (+0.3% expected, with a prior rev to 0.7% from 0.9% prior). The ex-food/energy metric posted identical figures, including the downward revision. This was the lowest for each since April. That meant final demand Y/Y posted just 2.6% (3.3% expected, 3.1% prior), with ex-food/energy 2.8% (3.5% expected, 3.4% prior).
- In turn, the reason for this surprisingly soft set of figures was the extremely volatile final demand trade services category, which as we noted in our preview is extremely volatile and prone to revisions. This fell 1.7% M/M (actually -1.73% unrounded, for a joint all-time low in the series that goes back to 2009).
- And as we had suggested, the prior month's 2.0% M/M rise was substantially revised down, to 1.0%, meaning that what had appeared in the initial reading to be a 39-month high is now merely a 2-month high.
- More on the drivers of the downside in trade services inflation and implications in the following note.
- Summing up, that meant that the "core" ex-food/energy/trade figure printed in line with expectations, at +0.3% M/M, with no revision to prior.
- Final demand goods PPI moderated to 0.1% from 0.6%, a 3-month low, with both food (0.1% after 1.4%) and energy (-0.4% after 0.7%) looking tame, and ex-food/energy dipping 0.1pp to 0.3%. There were some odd details here including a 2.3% M/M rise in tobacco prices which appears to have driven much of the upside in final demand goods, but utility natural gas prices fell 1.8%, resulting in the sequential overall energy price drop.
- On the services side, there was some notable stubbornness in transportation and warehousing (0.9% for a 2nd month for joint-highest of the year, though goods transportation/warehousing isn't dramatically elevated vs history), but "other" services moderated to 0.3% from 0.6% - which combined with plummeting trade services PPI meant overall final demand services printed a 4-month low -0.2% M/M after 0.7%.



Looking Past Trade Margin Volatility, PPI Trends Remain Moderate (2/2)

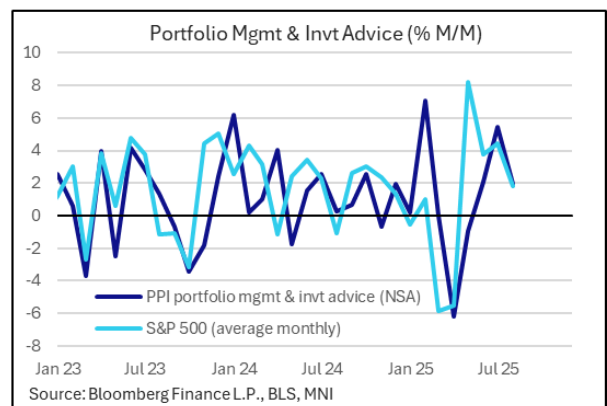
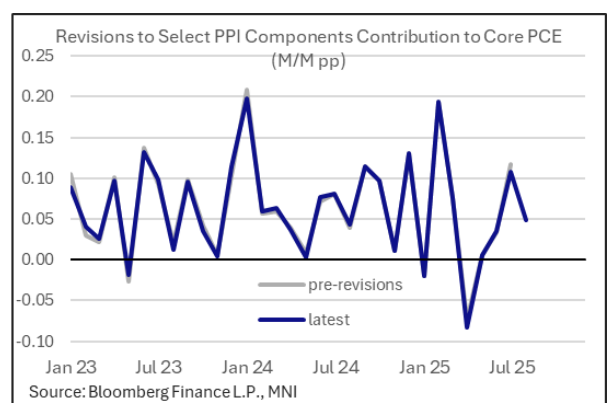
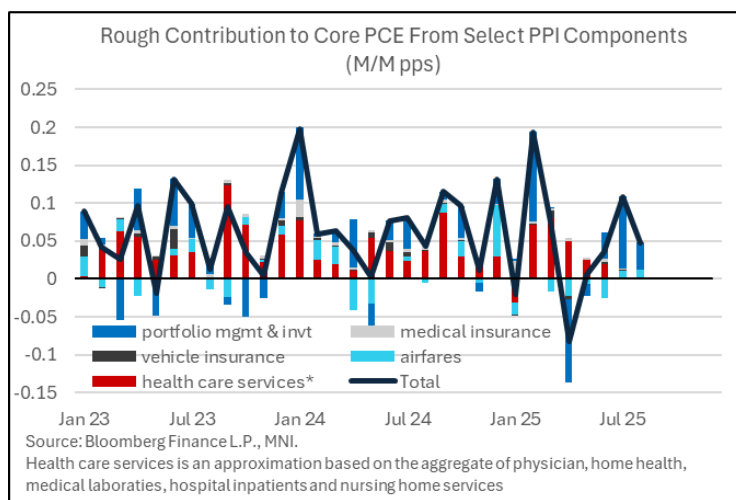
Looking even closer into the 0.2% M/M final demand services drop in August's PPI report, three-quarters (per the BLS) of the decrease was due to a 3.9% M/M fall in margins for machinery and vehicle wholesaling, after a 1.6% increase in July. That 1.6% was revised down from a very high 6.7% in the initial reading.

- With multiple other categories of trade services seeing margins decrease, most after rises in July (professional and commercial equipment wholesaling, along with retailers in the furniture, food and alcohol among others), the 1.7% drop in overall trade services margins (after July had been revised down to 1.0% growth from 2.0%) brings it back to January levels.
- That being said, we don't take much signal from the trade services categories, being that they don't feed into the Fed's preferred core PCE gauge and have too many methodological issues to interpret on a month-to-month basis. (Re PCE, the PPI data suggests that supercore PCE will moderate in Aug vs Jul on a M/M basis, even if 3M/3M annualized momentum continued to pick up a little largely on account of the strong July readings - see chart).
- Recall that July's jump caused great speculation over whether retailers/wholesalers were somehow increasing gross margins in anticipation of higher input prices due to tariffs, or that the margins were overstated as reported paid prices hadn't fed completely through and/or existing inventories were being sold down instead of new product. We may never have a conclusive answer to this, at least from the PPI data, and we certainly wouldn't draw any conclusions for the month's CPI goods data.
- When we step back and take a broader perspective on producer price inflation, we see some upside pressures in spots but not what would - yet - represent major new concerns over tariffs' impact on consumer prices.
- To be sure, there are some potential pressures emerging - nondurable consumer goods ex-food/energy rose to 0.5% M/M from 0.2%, with finished durable consumer goods inflation remaining steady at a reasonably elevated 0.3% for a 3rd month. This meant overall finished consumer goods ex-food/energy rose 0.4% M/M on a seasonally-adjusted basis, around the perkier levels seen in the last three years, but this tends to move around month-to-month.
- It can be said that overall PPI is probably running a little hotter than may be compatible with the Fed's 2% target, but that's not a new development, and indeed trend rates both Y/Y and 6M annualized for core are running slower vs 2024 levels and close to pre-pandemic levels.
- On a year-on-year basis, final demand PPI ex-trade/transportation/warehousing (ie margin-imputed, volatile categories) are at fairly "normal" levels of 2.8% Y/Y, around the same the last few months and down from above 3.5% at the start of the year. On a 6-month annualized basis, core PPI has been running at about 2% in recent months.
- There has been a very slow but perceptible drift higher in final demand goods (total and ex-food/energy) PPI since early 2024, but even so - at 2-3%, it's nothing close to the 2021-22 levels (8-10%) that augured soaring goods inflation, and not even yet reaching 2017-2018 levels (3%).



PCE-Relevant Components In PPI Cool After A Strong July

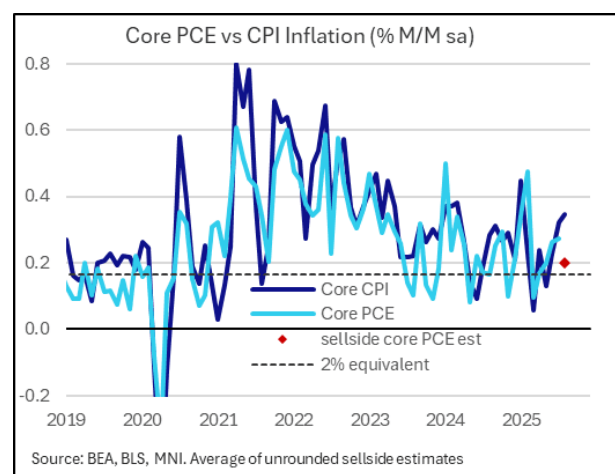
- Our crude proxy for core PCE contributions stands at 0.05pps in August after offsetting revisions with a still strong 0.11pp in July (vs 0.12pp previously) and 0.04pp in June (vs 0.03pp).
- PPI portfolio management and investment advice: 1.9% M/M after a near enough unrevised 5.5% M/M. We'd only seen Nomura on this beforehand (2.2%) and don't think this reading will have surprised many although if anything it's on the slightly soft side considering recent strength in equity markets.
- As you can see in the contributions chart below, this category has been providing a lot of the upside recently.
- Our collection of health care services is seen as having a second month of zero M/M contribution, in what's a clear soft patch since earlier in the year.



Core PCE Tracking 0.20% M/M, Down From Pre-CPI

As noted above, core PCE-relevant components from the August CPI report were on net benign, despite a slightly above-consensus core CPI reading. Since the release, multiple sell-side analysts have revised their core PCE % M/M projections to the downside. MNI now estimates a median of 0.20% (unrounded forecast range of 0.18-0.25%), vs a median a little above 0.3% at the start of the week.

- If correct, that would mean at least a 3-month low on a M/M basis, but also a slowdown on a 6-month annualized rate basis to 2.4% from 3.0% prior (3mma steady at 3.0%).

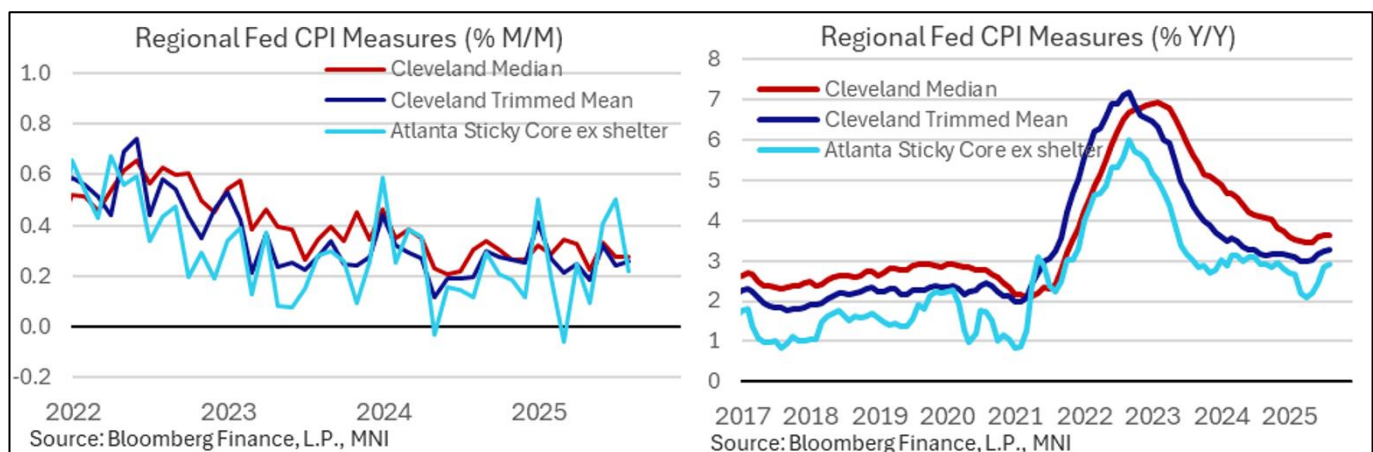


From highest to lowest current estimates (with pre-release forecasts if known):

- **Wrightson ICAP: 0.3% (rounded)**
- **Mizuho: 0.25%**
- **BofA: 0.23%**
- **Barclays: 0.21% (0.30% pre-CPI)**
- **Goldman Sachs: 0.20% (0.30% pre-CPI)**
- **Nomura: 0.20% (0.35% pre-CPI):** "CPI saw upside surprises in components, which PCE have lower (or zero) weight in PCE estimates (e.g., airfares, used autos, and rental-related components). At the same time, components that PCE overweights were negative (e.g., household linen, pharmaceuticals, computers software, and newspapers and magazines)...Rent and OER inflation were also higher than we had expected, coming in at 30bp and 38bp, respectively. These components impact PCE estimates, but receive a substantially lower weight relative to CPI."
- **TD: 0.19%**
- **Morgan Stanley: 0.18%**

Regional Fed CPI Metrics Point To An End To Disinflationary Progress

- Regional Fed inflation metrics based on August's CPI report were mixed on a month-to-month basis, but the longer-term trends suggest that overall inflation has bottomed out at an elevated rate.
- The Cleveland Fed's median CPI measures showed relatively steady M/M price changes in August. The overall median CPI measure came in at 0.28% M/M for a second consecutive month, with the Trimmed Mean (16%) ticking up to 0.26% from 0.24%. That brought the Y/Y readings respectively lower for median (3.62% after 3.65%), but to a fresh 13-month high for Trimmed Mean (3.29% after 3.22%).
- The Atlanta Fed's "sticky" CPI metric decelerated to 3.40% Y/Y from 3.43% prior. But the ex-shelter reading saw an uptick to a 13-month high 3.10% (2.95% prior). The sticky core CPI readings mirrored this, with Y/Y ticking down to 3.40% from 3.42%, but ex-shelter rising to a 9-month high 2.90% from 2.83%. The latter fell to 2.1% in April, lowest since 2021, but has been picking up ever since.
- Overall the readings aren't alarming in terms of indicating a significant pickup in broad price pressures since tariffs began coming into effect, however the upward drift at above-2% levels doesn't provide comfort that inflation is on a path to return sustainably to the Fed's 2% target. As the chart below shows, these measures were running below 3% Y/Y prior to the pandemic.



Market Reaction: Dovish Reaction

- The PPI report saw a very contained dovish reaction in near-term rates. There was a larger one for CPI but we feel that was mainly driven by the sharp uptick in initial jobless claims, with some paring on realization that a sizeable portion of the push higher was confined to Texas.
- With CPI and claims data fully digested a day later, Fed Funds futures are unchanged for next week's FOMC decision, with 27bp priced. That implies less than 10% odds of a 50bp cut having pushed to circa 20% shortly after last week's payrolls report.
- There are 71bp of cuts priced to year-end, hovering close to fully pricing three consecutive cuts.
- Further out the curve, terminal rate expectations are actually a little higher on net since the CPI data, having seen some particularly dovish levels after payrolls. It still points to ~140bp of rate cuts ahead, with the terminal rate seen in early 2027.

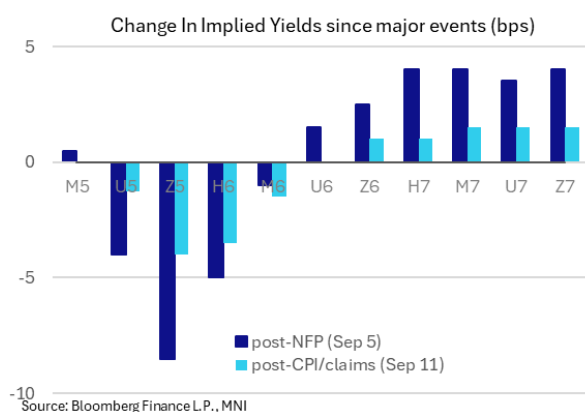


Source: Bloomberg Finance L.P. Dec 2025 FOMC implied cuts from current

FOMC-dated Fed Funds futures implied rates

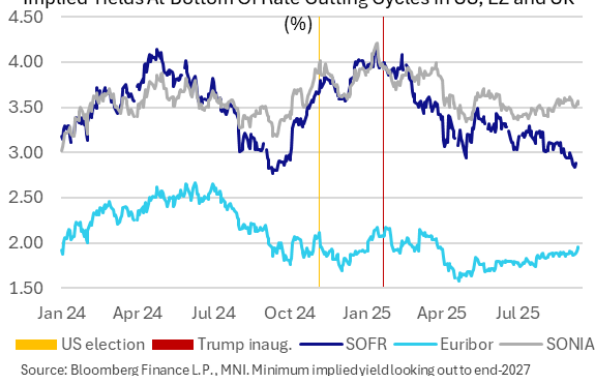
Meeting	Latest			pre CPI/claims (Sep 11)			chg in rate bp	pre Powell (Aug 22)			chg in rate bp
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)		%	step (bp)	cum. (bp)	
Effective	4.33			4.33				4.33			
Sep'25	4.06	-26.9	-26.9	4.06	-27.0	-27.0	0.1	4.15	-18.1	-18.1	-8.8
Oct'25	3.85	-21.3	-48.2	3.87	-19	-46.2	-2.0	4.03	-12	-30	-18.4
Dec'25	3.62	-22.9	-71.1	3.65	-22	-67.8	-3.3	3.85	-19	-48	-22.7
Jan'26	3.49	-12.6	-83.7	3.53	-13	-80.5	-3.2	3.73	-11	-60	-24.0
Mar'26	3.36	-13.2	-96.9	3.38	-14	-94.6	-2.3	3.60	-13	-73	-24.0

Source: Bloomberg Finance L.P., MNI.



Source: Bloomberg Finance L.P., MNI

Implied Yields At Bottom Of Rate Cutting Cycles in US, EZ and UK



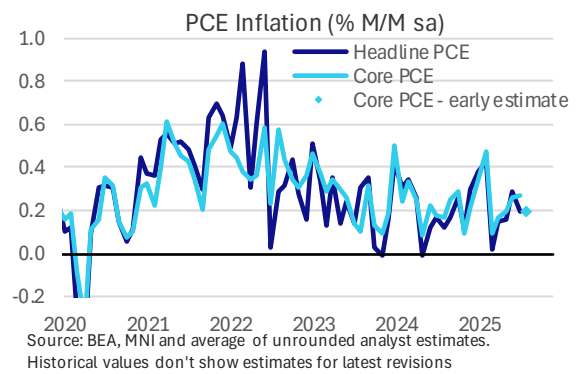
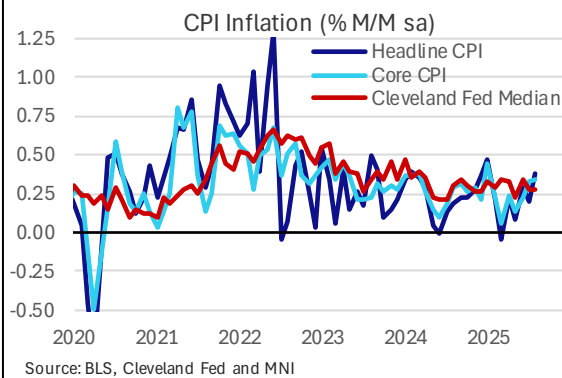
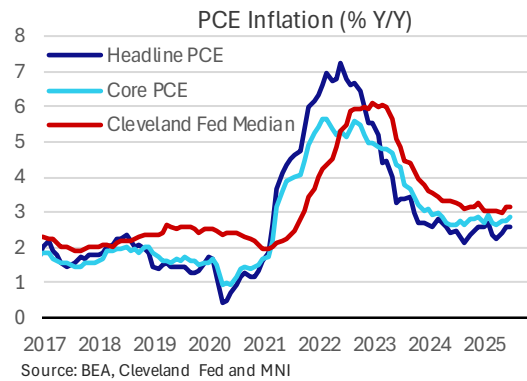
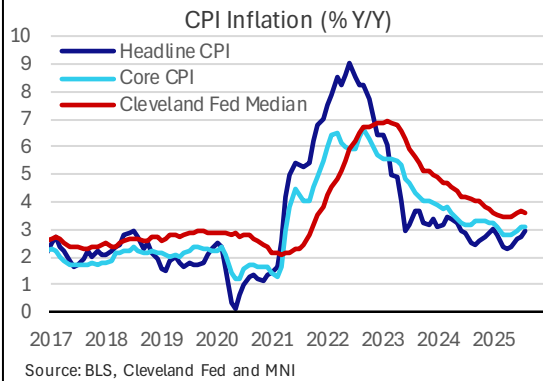
Source: Bloomberg Finance L.P., MNI. Minimum implied yield looking out to end-2027

Analyst view change

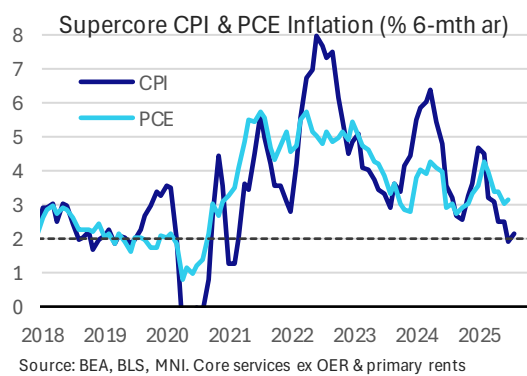
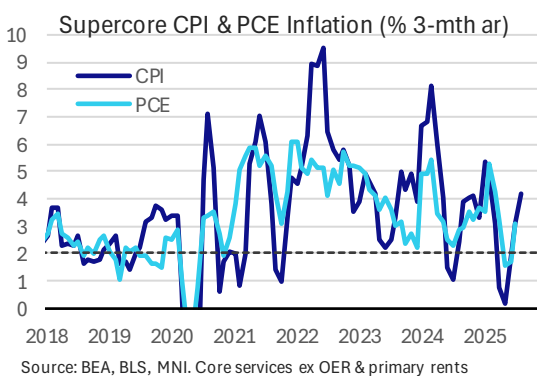
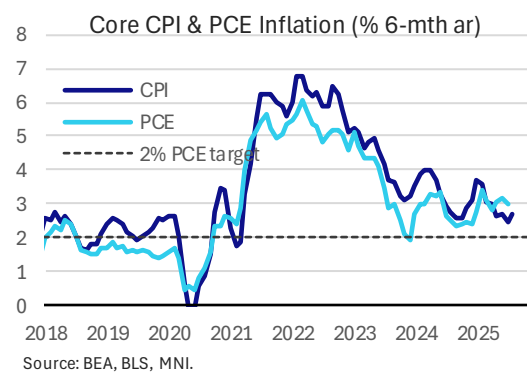
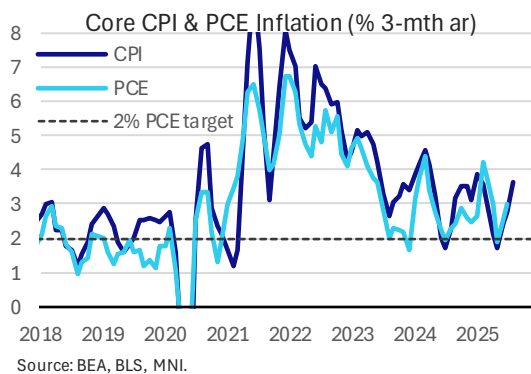
Morgan Stanley Looks For Faster Fed Cuts To 2.875% by July 2026

- After this week's PPI and CPI prints and last week's employment report, MS looks for a faster cutting cycle while maintaining a terminal 2.875% forecast.
- MS "now expect four consecutive 25bp cuts through January, followed by two more 25bp cuts in April and July." This sees the terminal rate reached in July rate than December.
- Markets currently price in more than 25bp for the September meeting (with the chance of a 50bp cut priced at less than 10%) with cumulative cuts not quite fully priced for the two remaining meetings this year. By the time of MS' terminal rate being reached in July 2026 (150bp of cuts from here), markets only price in around 127bp of cuts.

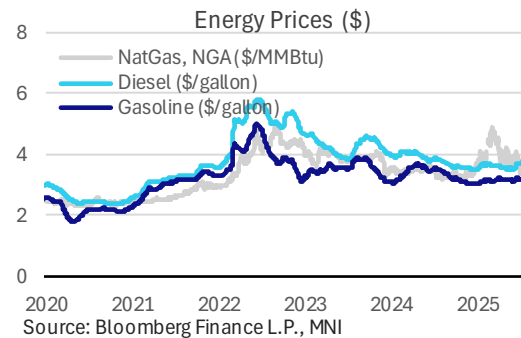
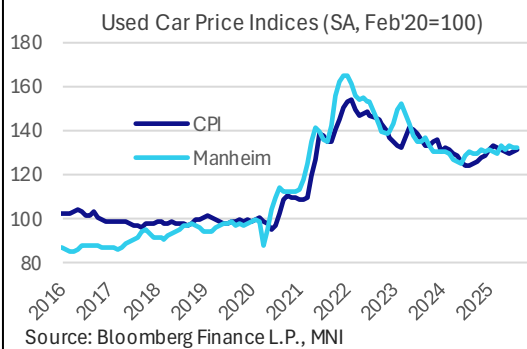
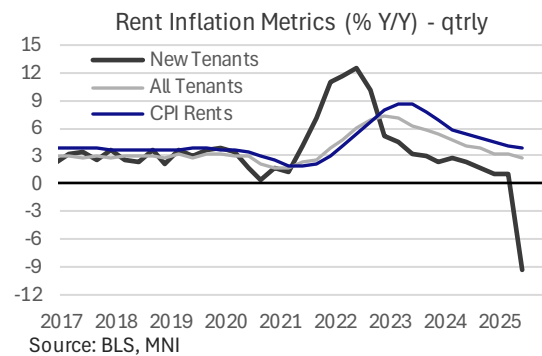
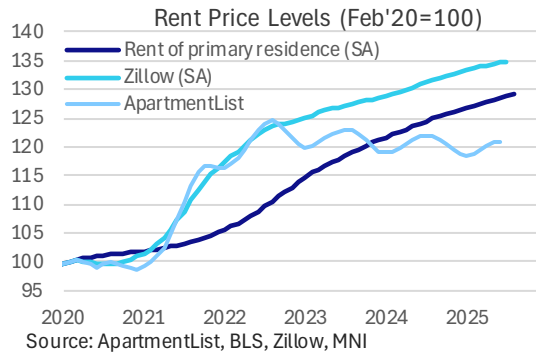
Inflation Overview



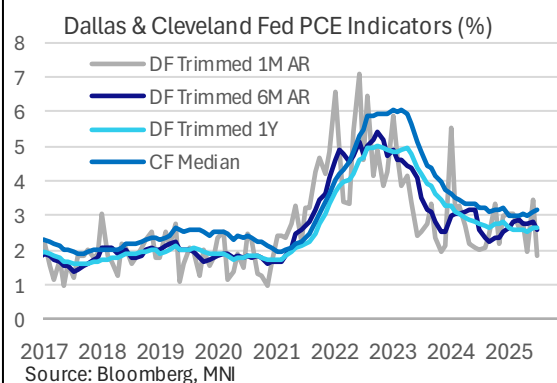
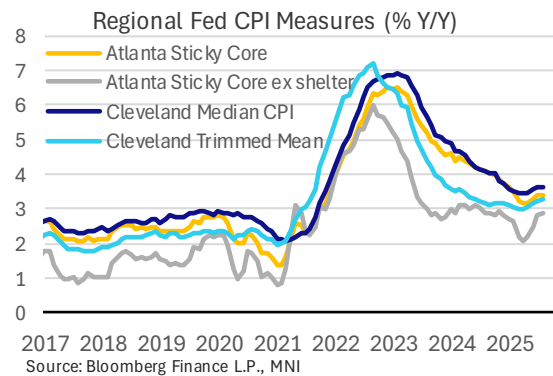
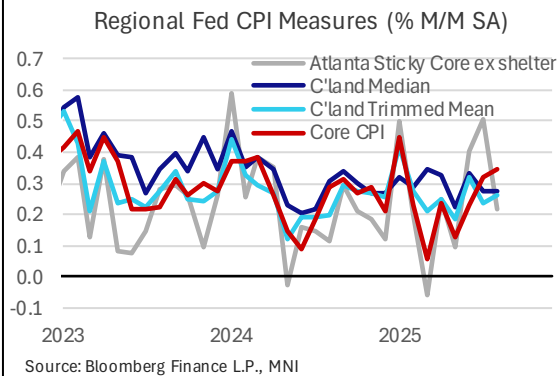
Recent Trends



Specific Categories

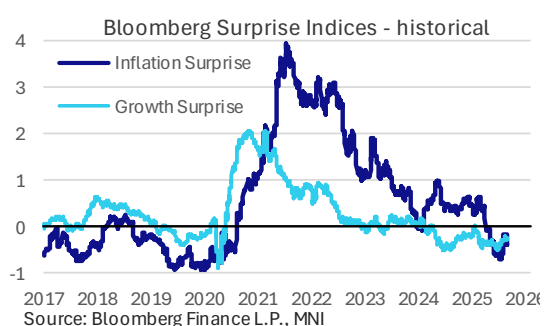
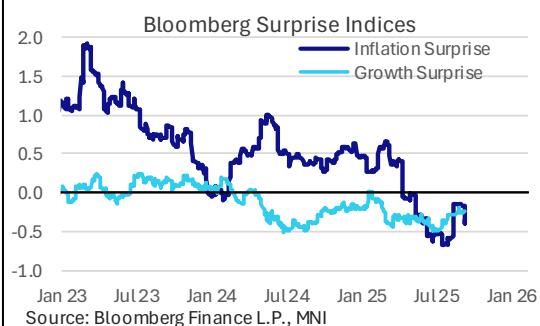
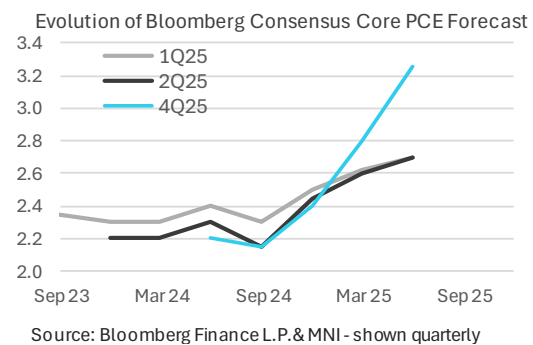
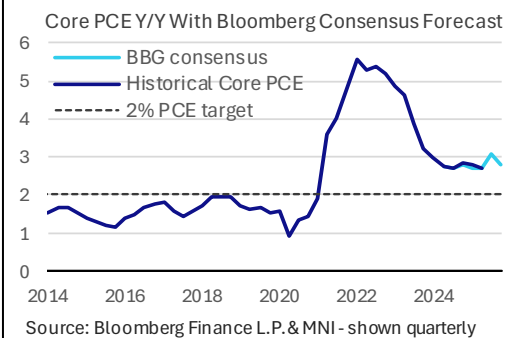
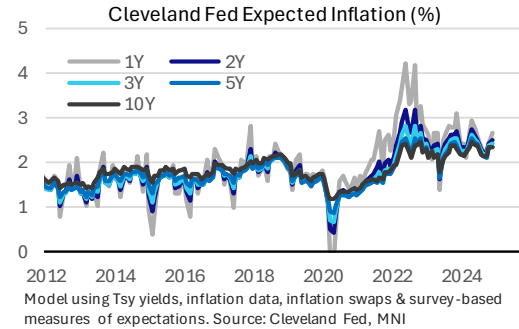
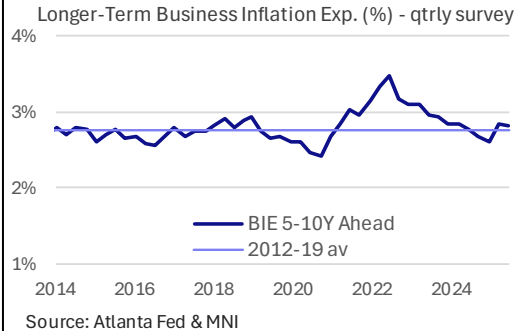
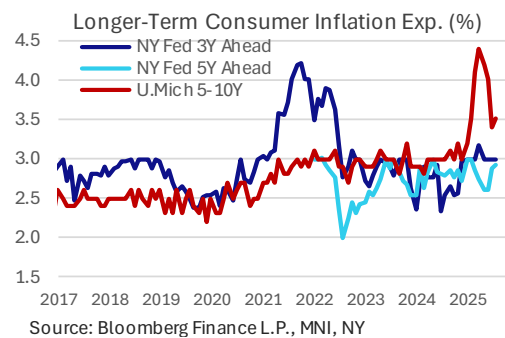
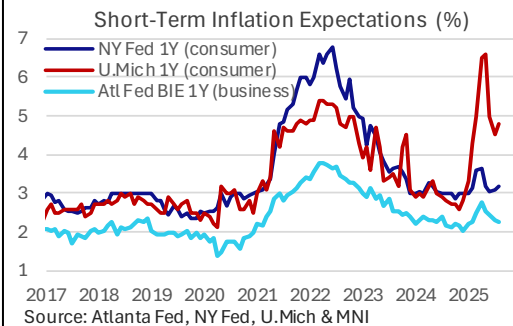
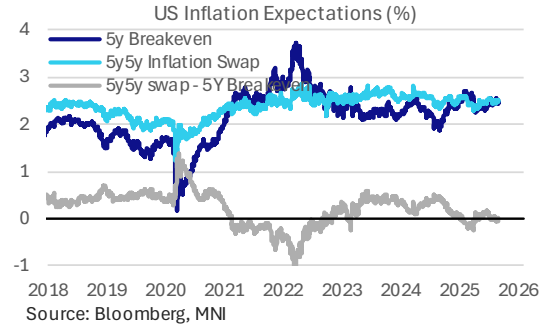
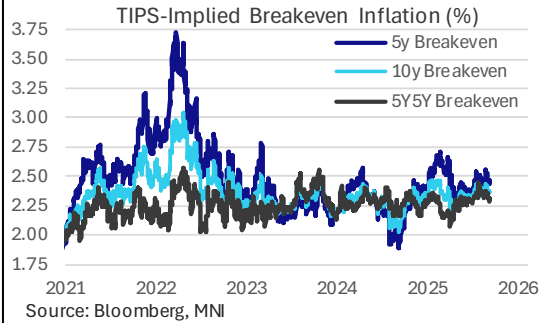


Regional Fed Inflation Indices



(The PCE measures will typically lag CPI by one month in this publication)

Inflation Expectations



MNI Policy Team Insights

MNI INTERVIEW: Fed To Cut Every Meeting To End Year - Bullard

By Jean Yung (Sep 11, 2025)

WASHINGTON - The Federal Reserve is on track to lower interest rates by a full percentage point over the next six months, starting with three 25 basis point cuts at each of this year's remaining meetings, as tariff continue to have only muted effects on inflation and a fairly static labor market persists, former St. Louis Fed President James Bullard and a contender to become the next Fed chair, told MNI.

"This meeting will be about what kind of path the committee wants to lay out in the dot plot. Would they want to upgrade from June, when they had two reductions for the second half of 2025? Now I think they'll probably go to three, so that puts the October meeting on the table as a presumptive meeting to have another cut," he said in an interview. (See: MNI: Bullard Interviewed By Bessent For Fed Chair Job)

Next year, "you could have another cut in the first quarter" after the FOMC has made certain any acceleration in inflation is temporary, he added. "They have room to cut and still be putting downward pressure on inflation while reacting to weaker jobs numbers."

Traders have priced in a steeper easing path as the labor market data weakened over the past month, with the two-year and 10-year yields falling to roughly 3.5% and 4.0%, respectively. (See: MNI INTERVIEW: Fed To Cut Faster After Weaker Jobs - English)

50BP CUT UNLIKELY

There's "not a strong enough case" for a jumbo size rate cut at next week's meeting, and doing so would unnecessarily set up expectations for more 50 bp cuts, Bullard said. "Does this mean you want to get much lower much faster? The committee doesn't seem to want to do that."

The labor market is in a low-hiring-low-firing balance consistent with a rapid shift in trade policy and uncertainty on the part of businesses, Bullard said. The AI boom is also likely drawing firms' resources away from hiring, he said.

At the same time, inflation has come in reassuringly tame and is set to head lower in the first half of 2026, he said. The cost of tariffs is spread among foreign companies, suppliers and consumers and not passed through directly onto retail buyers. "The more extreme stories about the tariff effects on inflation don't seem to be materializing."

Businesses will likely become comfortable with the new equilibrium of tariffs, deregulation and other growth provisions in the fiscal bill next year, driving growth higher over the medium term, Bullard said.

REGIONAL FEDS

The circumstances under which a U.S. president can fire a Federal Reserve governor may be up to the courts now, but the Fed Board is unlikely to try to remove regional Fed bank presidents as some have speculated, Bullard said.

The 12 Fed presidents are selected by their regional boards of directors, who continuously evaluate their chief executive and have the power to dismiss that person at will. That the Fed Board in Washington reappoints the presidents every five years is a "bit of a relic" of the Federal Reserve Act, Bullard said.

"Suppose you did all that and the board just hires back the person they like, what do you do about that?" he said. "This commentary is being made by people who are not that close to how this actually works."

While the Supreme Court will ultimately decide the legal parameters of a firing for cause, "I do think the intention of the Congress in passing the Federal Reserve Act is it would be hard to fire a member of the Board," Bullard said.

Congress could also legislate a process by which they themselves remove Fed governors, similar to the two-thirds vote required to impeach a federal judge, Bullard said. "You would have a safety valve if the person really wasn't doing the work."

MNI INTERVIEW: Fed To Cut Faster After Weaker Jobs - English

By Evan Ryser (Sept 5, 2025)

WASHINGTON – The August U.S. jobs report is likely to amplify the Federal Reserve's concerns about a cooling labor market, prompting the central bank to cut interest rates as many as three times this year, former director of the Fed Board's division of monetary affairs William English told MNI.

"There's no doubt the labor market report was soft, and that causes them to lean in the direction of easier policy," he said in an interview Friday. "It leans in the direction of easing policy further, faster than maybe the Fed had been inclined to."

The latest Bureau of Labor Statistics report confirmed a labor market that's cooling, with revisions showing the economy had lost jobs in June for the first time in nearly four years. The jobless rate rose to 4.3%, the highest since 2021.

FASTER

"The economy is slow and it's time to to cut rates some if what you're trying to do is balance the risks to the inflation outlook and to the employment outlook," said English, now at Yale University. "The risk to the employment outlook look bigger now." (See: [MNI POLICY: Fed Takes Measured Approach To Post-September Cuts](#))

A 50 bp cut in September may be considered but looks unlikely at the moment. However, next week's CPI report and labor data revisions will factor importantly, he said. "I could imagine they could get there, but it's not what I expect at this point."

English suggested the FOMC's June forecasts remain a decent guide for how policymakers likely see the economy, with a weaker labor market and higher inflation. In June, the median official saw two 25 basis point cuts this year. The median policymaker also saw weaker GDP growth of 1.4% this year, unemployment rising to 4.5%, and core PCE reaching 3.1%.

"My best guess at this point is still they are something like where they were in June, but with the labor market having softened a bit more, they may well end up with three cuts rather than two this year," English said.

INDEPENDENCE

The Federal Reserve's monetary policymaking freedom from political interference is at serious risk, English warned. "The last time there seemed to be this sort of really, really strong pushing and shoving was maybe back around the time of the Treasury-Fed Accord." (See: [MNI INTERVIEW: Trump Missed Window For Significant Fed Change](#))

Stephen Miran, Trump's pick for the Fed board and the White House Council of Economic Advisors Chair, said this week he plans to keep his White House job while at the Fed.

"There's no question that it weakens the independence of the institution to have people on the Fed Board who are also in senior positions in the administration," English said. "The Congress got rid of that back in 1935 when they set up the modern Fed, and the Secretary of the Treasury and the Controller of the Currency were moved off the board."

"I do worry that the Fed's independence could be really undermined, and I think we know that that would be a bad thing. There's a lot of evidence that independent central banks deliver lower inflation on average and just better economic outcomes on average."

MNI INTERVIEW: Tariff Inflation Impact Broadens- ATL Fed Study

By Jean Yung (Aug 29, 2025)

WASHINGTON - Price pressures from President Donald Trump's tariffs show signs of broadening as businesses tell the Federal Reserve they plan to raise prices faster over the next year whether or not they're directly affected by tariffs, Brent Meyer and David Wiczer of the Atlanta Fed told MNI.

The results of some 1,000 firms surveyed by the Atlanta Fed indicate the vast majority of executives expect faster price growth over the next year. Firms directly exposed to tariffs increased their year-ahead price growth expectations by 0.7 ppt. But even companies not directly affected but still operate in industries that are highly exposed to tariffs anticipated 0.3 pp higher price growth, according to Meyer and Wiczer's analysis of Atlanta Fed's Survey of Business Uncertainty.

"It's evidence of a broadening out of impact beyond those directly impacted," Meyer said in an interview, warning the trend is reminiscent of early 2021, when price spikes on products subject to shipping bottlenecks quickly spread everywhere.

"That's the first red flag you'd wave if you're looking into whether there's an inflationary impulse."

EVERYONE'S DOING IT

Since the end of last year, firms' expectations for prices and costs have climbed meaningfully, Wiczer said.

"What one worries about is firms that are not themselves experiencing cost shock from tariffs but knowing their competitors had a price shock, might take that as leeway to raise their own prices. That would be the way in which some companies increasing prices affects overall inflation," he said.

A recent anecdote from a domestic cheese manufacturer neatly illustrates the effect, Meyer said. A supermarket selling both domestic and Swiss cheeses spread the 39% tariff on the latter across its products, as it said it wouldn't be able to pass along a dramatic cost increase on just one product range.

MARKET SHARE CONCERN

A thought experiment comparing the tariff effect on import-reliant firms in relatively unexposed industries with firms not themselves exposed but in an industry that imports heavily found a 0.2 pp gap in price growth expectations.

"It's sizeable in the sense that competitive pressure is restraining tariff price growth a little bit, but exceeding that is everyone having this cost pressure," Wiczer said. "If my neighbors did, then I can raise prices."

Compared to Covid, the price and cost expectations boost from tariffs is on a much smaller scale, and the question of how reluctant firms may be to implement price hikes with consumers less well off than a few years earlier remains unknown, Meyer said, adding that so far firms surveyed haven't reported a meaningful decline in demand.

"There's a lot of uncertainty. This on-again-off-again imposition of tariffs means what feeds through won't be a one-time level shift, and we could get drips and drabs over a long period of time before we see the fulsome tariff impact," Meyer said.

"It's easy to ignore an outsize one-month increase. When we see these things pile up over time, it looks a lot like inflation." (See: [MNI POLICY: Fed Takes Measured Approach To Post-September Cuts](#))

MNI INTERVIEW: Inflation Too High For Fed Rate Cuts - Hoenig

By Pedro Nicolaci da Costa (Aug 28, 2025)

WASHINGTON - The Federal Reserve's rush to cut interest rates next month looks premature given still-elevated inflation rates and an economic and employment picture that is largely stable, former Kansas City Fed President Thomas Hoenig told MNI.

The FOMC "should not be cutting given the stability in the economy generally – unemployment very stable, inflation well above the 2% target and well above price stability – and that's both PCE and CPI," Hoenig said in an interview Thursday.

"This is a steady state. Real interest rates are pretty close to neutral. I think you are risking a less stable market if you lower rates."

Coupled with threats to Fed independence, that volatility could manifest itself in the form of higher longer-run borrowing costs even if the Fed does push short-term rates down, as the White House has relentlessly pressured the central bank to do.

"They want to lower interest rates so you can lower mortgage rates. But the effect would be, I think, to increase the demand for housing, increase the demand for capital. To do that, I don't know that would bring interest rates down especially in the long end. We saw what happened a year ago," said Hoenig, now a senior fellow at the Mercatus Center.

DEFICIT INFLATION

Hoenig said there will be additional inflation from tariffs, which he would have been willing to look through as a policymaker. However, he's worried about a ballooning budget deficit accentuated by the latest tax cut legislation.

"To me the real issue is the government is spending USD7 trillion and taking in revenues of USD5 trillion. So there's a new USD2 trillion of debt added, and that tends to be inflationary, especially around the subsidies and the tax cuts and so forth," he said.

Savings from cuts to Medicaid and increased tariff revenues pale in comparison with the extent of the budget hole, he said.

"So you've got an expansionary fiscal policy in place right now that's going to have more effect on inflation than the tariffs longer term."

FED INDEPENDENCE

Like many others in the central banking community, Hoenig is concerned about threats to Fed independence given unprecedented public attacks on the institutions from President Donald Trump.

Trump will get to appoint Fed Chair Jerome Powell's replacement next year and has already nominated Council of Economic Advisors Chair Stephen Miran as his first second-term appointee to the Fed Board of Governors.

"If you get a majority of the Board listening to Trump as a policymaker, then you really do have an issue with inflationary expectations becoming unbound and uncertainty rising. That would have a major effect on the bond market," Hoenig said.

He said there's a "high probability" the administration will try to control not only the Board but the regional Fed banks as well, by using board members' veto powers on the reappointment of Fed presidents early next year.

"The board of directors of Fed banks will probably put their names in, but the Board of Governors can reject that," he said.

MNI INTERVIEW: Low Inflation Ex-Tariffs Support Fed Cuts-Haslag

By Pedro Nicolaci da Costa (Aug 28, 2025)

WASHINGTON - Federal Reserve officials have room to reduce interest rates starting next month because inflation is already at or below target if not for the one-time tariff shock, but borrowing costs are just two or three quarter point cuts away from neutral so any further easing will be cautious, former Dallas Fed economist Joseph Haslag told MNI.

"It'll be interesting to see September. I can't imagine it would be anything other than 25 basis points, but I could imagine a 50, and that would still leave us in a position where we're probably a little smidgen tight in terms of the stance of monetary policy," said Haslag in an interview.

After that, he sees a "50-50 chance that we have another 25 basis point cut before 2025 ends."

Haslag, also a former Kansas City Fed visiting scholar, thinks the Fed is well-advised to begin cutting in September even though he thinks key inflation measures will hover between 2.5%-3.5% in coming months.

That's because he believes underlying inflation is moderating and that the hit from tariffs will be fleeting, an argument also made by Fed Governor Chris Waller after dissenting in favor of a July cut.

"If it weren't for the whole tariff business, I think we'd already be in the 2% or maybe even a little bit below stage. I think what we're seeing now is the slow trickle of the pass through of tariffs," he said. (See: [MNI POLICY: Fed Takes Measured Approach To Post-September Cuts](#))

LACKLUSTER GROWTH

Seeing little catalyst for a short-term burst of renewed economic expansion, Haslag expects GDP growth to hover near the soft first half clip of 1.5%, perhaps a bit weaker, for the remainder of the year.

"I don't think we're going to be at 5% unemployment before the end of the year, but I think we're going to move up from 4.2% and it's going to be edging up over the next six to nine months," he said.

Fed Chair Jerome Powell appeared to put a September rate cut on the table in last week's Jackson Hole speech, and his case was based importantly on perceived downside risks to the labor market after major revisions to recent data.

Haslag said he's concerned about the quality of economic data based on the scale of recent revisions.

"Data quality is pretty questionable," he said. "Maybe the BLS is a little bit behind by doing phone surveys the way they do. It's fair to say that it's time to ask is there a better method? Because this one doesn't seem to be working all that well."

MNI POLICY: Fed Takes Measured Approach To Post-September Cuts

By Jean Yung (Aug 28, 2025)

WASHINGTON - Federal Reserve Chair Jerome Powell has signaled the central bank is ready to cut interest rates in September, but a divided FOMC will carefully weigh the need for and timing of any subsequent reductions because inflation remains too high for the Fed's comfort.

Some FOMC members are sufficiently worried about the labor market to support more aggressive cuts, while others remain cautious about direct and second-round effects of tariffs-driven price hikes, which have boosted core PCE inflation to an estimated 2.9% in July, above its year-ago level.

Middle ground could be found in a measured pace of rate reductions, as officials watch how higher costs flow through the supply chain and take stock of further cooling in the labor market as demand weakens. Uncertainty within the FOMC about the destination for borrowing costs – including just how far they are from neutral – provides further grounds for gradualism.

"The stability of the unemployment rate and other labor market measures allows us to proceed carefully as we consider changes to our policy stance," Powell said in his speech at the Kansas City symposium. "Nonetheless, with policy in restrictive territory, the baseline outlook and the shifting balance of risks may warrant adjusting our policy stance."

INFLATION TOO HIGH

The price effects of tariffs have been somewhat muted so far, as firms pulled forward purchases and delayed having to raise prices. Now that demand has cooled in the second half, business leaders are keen to preserve market share, knowing consumers are feeling stretched.

Still, surveys and anecdotal evidence signal prices will rise further, and some firms not directly affected by tariffs also anticipate raising prices along with their competitors – mechanisms that could see price pressures spreading.

Core non-housing services CPI spiked 0.5% in July after coming in at a three-month average rate of 0.25%, setting off concerns among some Fed officials that tariff effects aren't staying in their lane. A record high 2.6% jump in dental services prices in the month may be traced partly to the higher cost of imported dental supplies, for example. (See: [MNI INTERVIEW: Fed Inflation Woes Extend Beyond Tariffs-Lacker](#))

RISKS MORE BALANCED

Views differ among FOMC officials over whether a still-low U.S. unemployment rate of 4.2% masks more weakness in the labor market.

Some employers are allowing attrition to whittle their payrolls, and some are choosing to invest in technology instead of hiring. That the supply of workers has slowed at the same time due to immigration curbs and retirements has kept the labor market in what Powell called a "curious" balance. (See: [MNI POLICY: Job Revisions Pressure Fed To Cut In September](#))

Quits rates and vacancies continue to look reasonably healthy, assuaging fears of an imminent deterioration in jobs. At the same time, a less tight labor market creates fewer conditions for wages-driven inflation.

"We can cut now and see how the data evolves," Fed Governor Chris Waller said after dissenting in favor of a cut in July. "If the tariff effects do not lead to a major shock to inflation, the Committee can continue reducing the rate at a moderate pace. If we do get significant upside surprises to inflation and employment, we can pause."

MNI INTERVIEW: Fed Inflation Woes Extend Beyond Tariffs-Lacker

By Pedro Nicolaci da Costa (Aug 27, 2025)

WASHINGTON - The Federal Reserve has not yet finished the job of taming inflation and cutting interest rates now could reignite price pressures, especially at a time when the central bank's credibility is under threat from attacks on its independence, former Richmond Fed President Jeffrey Lacker told MNI.

"I think they've got an inflation problem apart from the tariff effects. When they started cutting rates last year, inflation stopped falling and they haven't had any disinflation since," Lacker said in an interview Wednesday.

"The underling ex-tariff inflation rate has not come down, it's around 3%. It just seems like they ought to be leaning against the inflation pressures more than worrying about downside risks" to employment and growth, he said.

Instead, Lacker noted that Fed Chair Jerome Powell's Jackson Hole speech last week all but cemented the prospect of a September rate cut, though uncertainty about the path of policy after that remains.

"It seems pretty clear they're headed towards a cut in September," he said. "They've signaled they're going to take it as the data indicate after that. It's not clear how they'll play it." (See [MNI POLICY: Job Revisions Pressure Fed To Cut In September](#))

JOBS IN BALANCE

The former policymaker took issue with Powell's focus on downside risks to employment, a shift from the chair's earlier description of the job market as solid.

"The chair's observations were puzzling to me. He noted that the labor market seemed in balance, because while employment growth was lower, it looks like the demand was growing more slowly and supply was growing more slowly. And that's obviously demonstrated by the stability of the unemployment rate," Lacker said.

"But a downside risk is a departure from the steady state that you're on, and if you're in some steady path where demand is growing at the same rate of supply, it's not obvious the risks are any higher. If that growth rate is low and if both of them are growing at a high rate, if the unemployment rate is stable, I'm not sure why lower supply growth would signal downside risk."

DOLLAR RISK

President Donald Trump's strong-arming of the Fed to lower interest rates, including public pressure on Powell and most recently the attempt to fire Fed Governor Lisa Cook, is putting the credibility of the American financial system on the line, Lacker said. (See [MNI: Experts Say Fed's Cook Will Prevail Against Trump](#))

"I do think the value of the dollars is at stake. I think that the role of the Treasury market as the market that people pile into whenever there's uncertainty, even if it's uncertainty about the United States, that's in question going forward," he said. "A replay of something that maybe rhymes with the 1970s if it doesn't replicate it exactly, is a scenario people are going to start taking more seriously if the Fed independence crumbles."

Lacker noted how then-Chair Arthur Burns famously lacked the political will to raise interest rates when it was needed, as Burns himself later confessed.

“After he left office, he expressed, in his famous speech about the anguish of central banking, that he just didn't feel like he had the political cover, that it would have been politically acceptable for the Fed to do what it needed to do,” said Lacker. “I think we could find ourselves in the same situation – guided by leaders who either aren't willing to do what they need to do to bring inflation under control or don't want to – and that would be a really disturbing outcome, a disturbing place for our country to be in.”