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KEY CPI METRICS CONVERGE, FURTHER SIGNALING A RATE CUT

INVESTMENT VIEWS
FROM THE BNY INVESTMENT INSTITUTE

October 2025

Markets are laser-focused on this week's FOMC meeting with expectations of a Federal Reserve (Fed) rate cut and further signals for another cut in December.

Meanwhile, the September convergence of headline and core Consumer Price Index (CPI) at roughly 3.0% year-over-year is yet another sign of potential Fed moves and paints the broader economic picture in two ways. First, it indicates a positive sign that neither gasoline nor groceries are driving unexpected jumps (or declines) in inflation. Second, the data underscores that "core" price pressures remain firmly above the Fed's 2.0% target, leading to a greater likelihood of a rate cut at the October Fed meeting, and potentially another in December.

KEY TAKEAWAYS

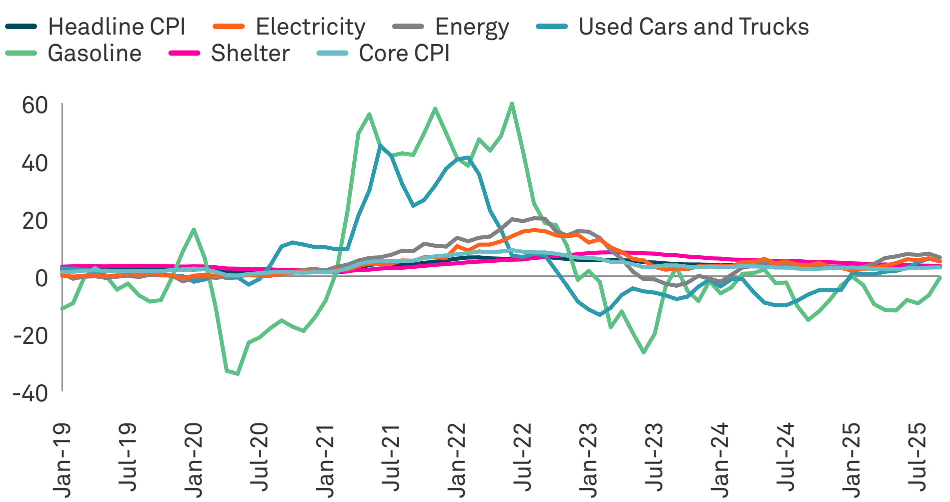
1 September headline and core CPI each rose 3.0% year-over-year, versus consensus expectations of 3.1%. That slightly softer print paves the way for a further rate cut at this week's meeting and strengthens the case for another reduction in December.

2 Goods-price inflation is moderating, largely thanks to cheaper used-vehicle prices. Tariff effects, however, continue to push core goods prices up by 0.2%.

3 Moreover, price pressures are broadening: apparel climbed 0.7%, while furniture and recreation-goods each rose 0.4%. These trends mirror private-sector surveys signaling persistent price pressures.

Context is everything and even inflation levels at 3.0% are low compared to components like energy, gasoline and used cars and trucks, which skyrocketed following Covid.

SELECT CPI COMPONENTS YoY % CHANGE (Jan. 2019–Sept. 2025)



Sources: BNY Investment Institute, Macrobond, October 2025.

Chart is for illustrative purposes only.

CPI numbers in focus

The September CPI convergence tells a deeper story:

1 Energy and food volatility has waned

The usual gap between headline (which swings with oil, gas and groceries) and core (which strips those out) CPI has narrowed because energy prices are no longer surging or plunging.

Energy was only +1.5 percent month-over-month in September, and food just +0.2 percent — so neither category is distorting the aggregate.

2 Underlying inflation is more broad-based

Core CPI has been the Fed's go-to gauge of persistent price pressures; when headline drifts back toward core, it means the temporary shocks in food/energy aren't masking the "real" trend.

Here, headline = core at 3.0 percent year over year, signaling that both volatile and sticky components are moving in lockstep.

3 Implications for policy and markets

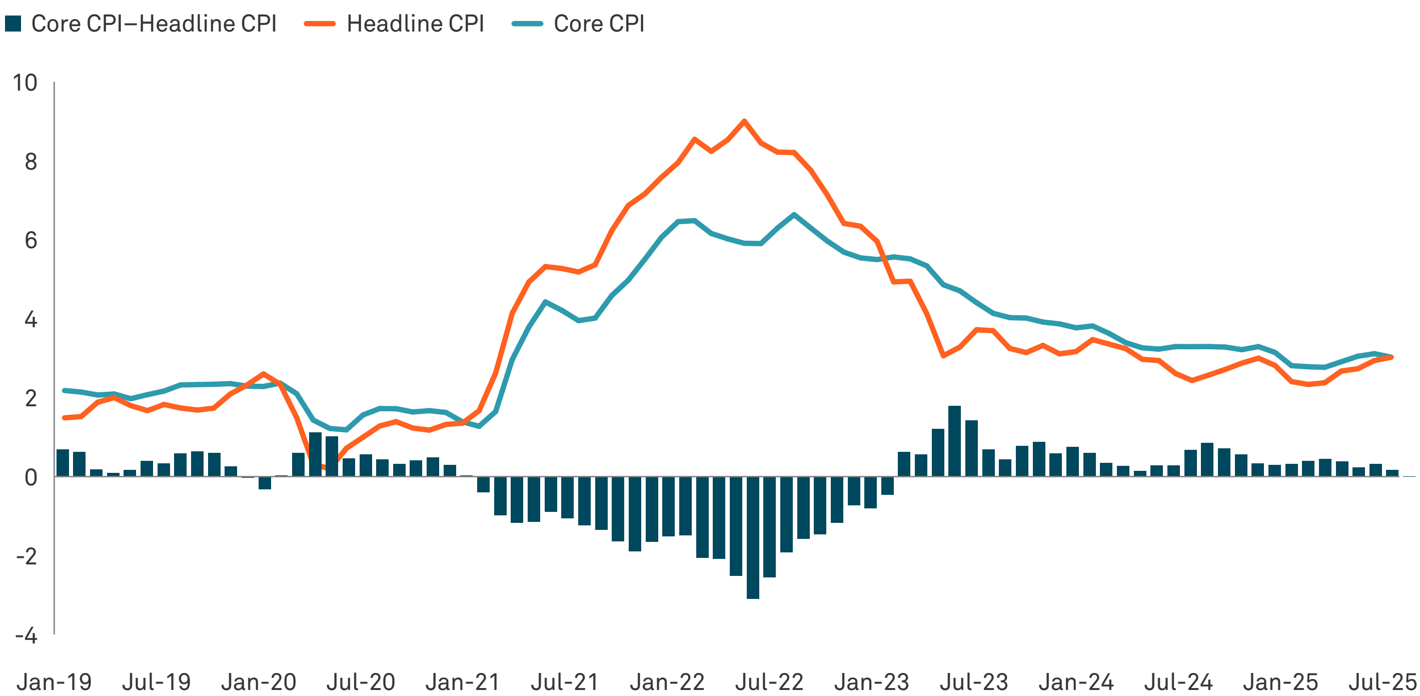
Fed watchers: with no outsized energy spike to worry about, the focus shifts squarely onto core services (rent, wages, medical care).

4 Historical context

Over the past decade, the average gap between headline and core CPI has been around 1–1.5 percentage points. A zero gap is unusual and suggests a period of relative calm in the most volatile categories.

Meanwhile, the differences between core CPI and headline CPI have normalized.

HEADLINE AND CORE CPI YoY % CHANGE (Jan. 2019–Sept. 2025)



Sources: BNY Investment Institute, Macrobond, October 2025.
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What's next for the Fed?

The market is looking for a Fed that doesn't just cut 25 basis points (bp) this week but one that can also signal that more rate cuts will follow. Given our position, we believe there will be another 25bp rate cut in December.

It would take a de-anchoring of inflation expectations to shift the Fed's reaction function, which we do not see as likely, due to stable wage growth. That said, market pricing still seems a little optimistic.

Data at a Glance

CPI

- Monthly Change: +0.3%
- Year-Over-Year: +3.0%

Core CPI
(excludes food and energy)

- Monthly Change: +0.2%
- Year-Over-Year: +3.0%

Key Drivers

- Energy: gasoline prices were flat after summer declines.
- Shelter: rent and owner's equivalent rent continued to be the largest upward contributor.
- Used Vehicles: modest price increases as supply constraints persist.
- Food: prices rose 0.4% month-over-month, driven by away-from-home dining.
- Medical Care: slowed from prior months, adding less to headline inflation.

About the BNY Investment Institute

Drawing upon the breadth and expertise of BNY Investments, the Investment Institute generates thoughtful insights on macroeconomic trends, investable markets and portfolio construction.

Consumer Price Index (CPI) measures the overall change in consumer prices based on a representative basket of goods and services over time.

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