Economic News

Desjardins Economic Studies
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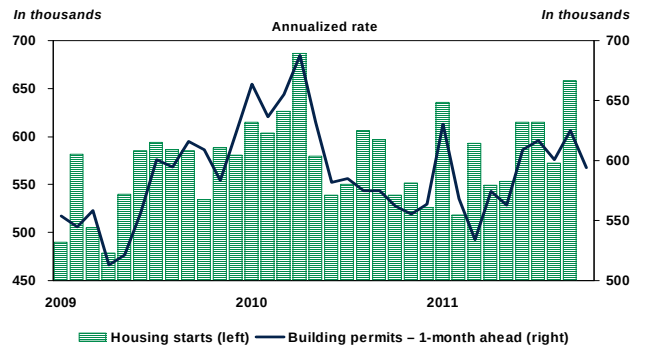
UNITED STATES

Total inflation and housing starts accelerate in September

HIGHLIGHTS

- The consumer price index (CPI) rose 0.3% in September after going up 0.4% in August. Mainly responsible for the CPI increase is a 2.0% rise in energy prices. The core index, which excludes food and energy, is up 0.1% in September.
- Year over year, the total CPI goes from 3.8% to 3.9%. Core inflation stayed at 2.0%.
- In September, housing starts posted their strongest monthly growth since January 2011, jumping 15.0% to go from 572,000 to 658,000. The rise in housing starts on single-family dwellings is tepid, however, at 1.7%. The gain primarily stems from multi-unit housing, where housing starts climbed 53.4%.
- Building permits fell 5.0% in September after August's 4.0% rise. They dropped below the 600,000-unit mark for the first time since April.

The jump in housing starts should prove temporary



Sources: U.S. Census Bureau and Desjardins, Economic Studies

COMMENTS

Despite further fairly strong growth by consumer prices, September's figures show some signs that inflation is easing. For one thing, the total CPI's monthly rise once again comes from the increase in gas prices. Note that prices at the pump fell during the month—it is the seasonal adjustment processes that are turning an overly timid decline in prices for this time of year into an increase by the index. This paradoxical situation should end in October, as the decrease in prices at the pump noted to date is much steeper. For another, after several months of sustained growth that contrasted with the weak economy, prices excluding food and energy are finally starting to moderate. Precisely, in September, the core CPI went up 0.05%, its weakest growth since October 2010. Clothing prices are down a sharp 1.1% after four straight months of more than 1% increases. Prices for used cars are also down for the first time since January. The rise in housing prices is smaller in September than it has been in recent months.

At first glance, the jump in housing starts is very encouraging. They are even at their best point since April 2010. However, a number of factors suggest the surge will not last. Firstly, the gain mainly comes from multi-unit housing, a highly volatile sector. Secondly, the gain is not happening in all regions whereas, in the south, multi-unit housing rose 140%. Thirdly, September's drop in building permits points to a pullback by housing starts in October. They could thus quickly tumble below the 600,000-unit mark.

Implications: September's rise in total inflation probably represents the peak for price acceleration. We can expect some easing as of next month. For housing starts, last month's astounding gain is no doubt temporary. A pullback is expected in October.

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