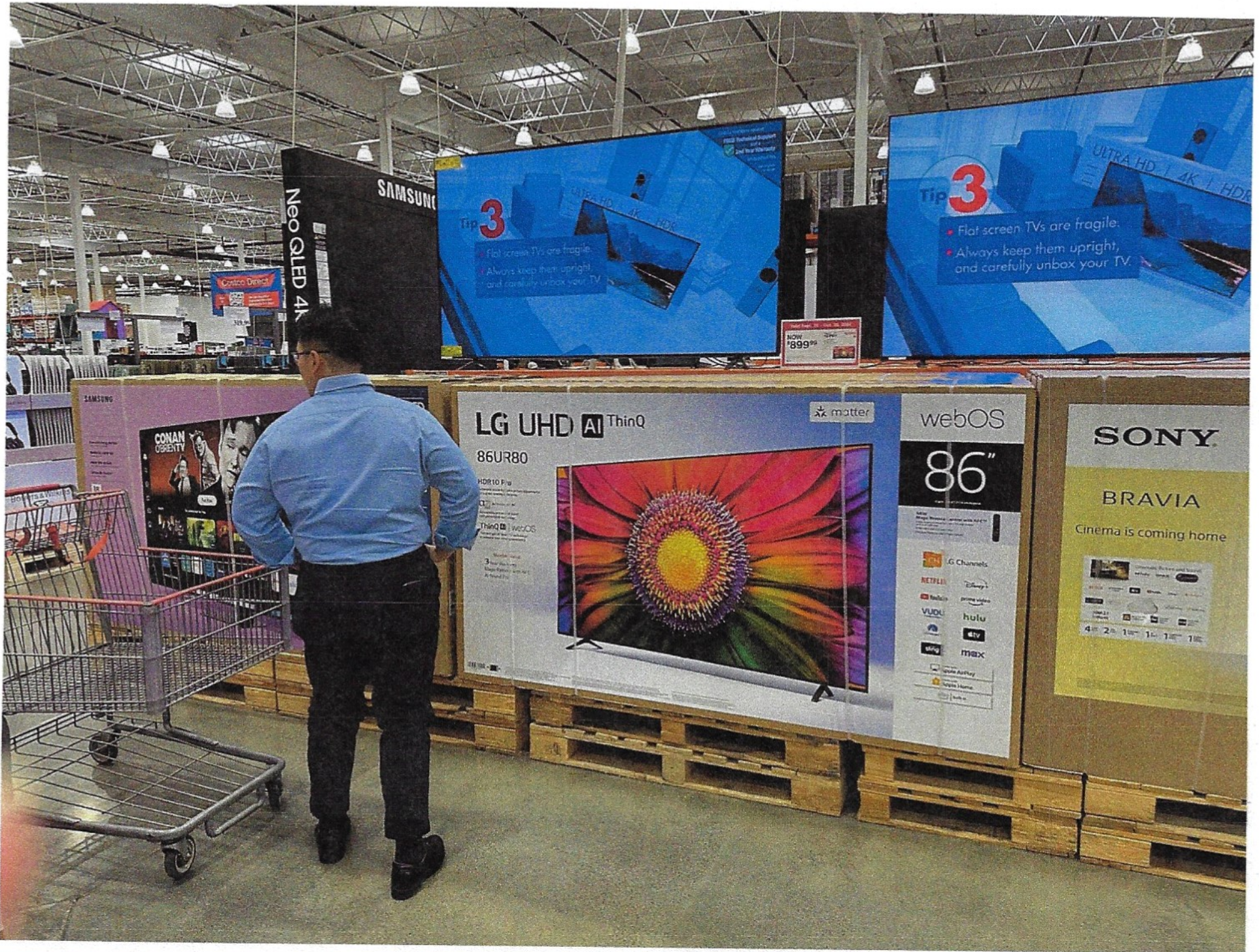


ECONOMY

# U.S. inflation reaches lowest point in 3 years



A shopper considers large-screen televisions on display in a Costco warehouse Oct. 3 in Timnath. PHOTOS BY DAVID ZALUBOWSKI — ASSOCIATED PRESS FILE



A shopper considers rug samples near a display of furniture in a store on June 2 in Lone Tree.

**BY CHRISTOPHER RUGABER**

**THE ASSOCIATED PRESS**

WASHINGTON>> Inflation in the United States dropped last month to its lowest point since it first began surging more than three years ago, adding to a spate of encouraging economic news in the closing weeks of the presidential race.

Consumer prices rose just 2.4% in September from a year earlier, down from 2.5% in August, and the smallest annual rise since February 2021. Measured from month to month, prices increased 0.2% from August to September, the Labor Department reported Thursday, the same as in the previous month.

But excluding volatile food and energy costs, “core” prices, a gauge of underlying inflation, remained elevated in September, driven up by rising costs for medical care, clothing, auto insurance and airline fares. Core prices in September were up 3.3% from a year earlier and 0.3% from August. Economists closely watch core prices, which typically provide a better hint of future inflation.

Alan Detmeister, an economist at UBS Investment Bank, suggested that some items that contributed to higher core inflation last month, notably used cars, may rise again in the coming months, keeping

prices a bit elevated. But other items that rose in price in September, like clothing and air fares, are more volatile and should cool soon.

“Things are still gradually coming down, but there is going to be volatility month to month,” said Detmeister, a former Federal Reserve economist.

Taken as a whole, the September figures show that inflation is steadily easing back to the Fed's 2% target, even if in an uneven pattern. That decline suggests that the Fed will likely keep cutting its benchmark interest rate this year, with two quarter-point reductions in November and December \* expected by most economists.

On a positive note, apartment rental prices grew more slowly last month, a sign that housing inflation is finally cooling, a long-awaited development that would provide relief to many consumers.

Omar Sharif, founder of Inflation Insights, said that measures of new rents show a steady slowdown, suggesting that the government's gauges of rent should continue to ease over time.

“I think we're on the right path here,” Sharif said. “We should see rent cool off quite a bit.”

Overall inflation last month was held down by a big drop in gas prices, which fell 4.1% from August to September. Grocery prices jumped 0.4% last month, after roughly a year of mild increases, though they're just 1.3% higher than a year earlier.

\* Still, food prices have risen nearly 25% from pre-pandemic levels, which has hammered many Americans' budgets and taken on a high profile in the presidential campaign. Trump has often cited the cost of bacon, which soared 30% to a peak of \$7.60 a pound in October 2022, as an example of big increases in the cost of living. Bacon prices have since fallen to \$6.95 but are still elevated.

Restaurant food prices increased 0.3% last month and are up 3.9% in the past year. And clothing prices rose 1.1% from August to September and are up 1.8% from a year ago.

Bryan Tublin, co-founder of Kitava, a casual farm-to-table restaurant in San Francisco, said he has struggled mightily with rising prices for produce, meats and oils for the past three years. Though some of those prices have started to slow, he said, many farmers are still passing on to him their higher costs for things like shipping and labor.

In response, Tublin said, he has changed suppliers in search of cheaper products, substituting a local wild-rice blend for cauliflower rice when cauliflower prices shot higher.

Kitava also started charging extra for beef and other proteins at its two locations.

“I am starting to see signs that our prices are leveling out and the increases are lessening,” Tublin said. “There's a little optimism ... but it's still very early days.”

The improving inflation picture follows a mostly healthy jobs report released last week, which showed that hiring accelerated in September and that the unemployment rate dropped from 4.2% to 4.1%. The government has also reported that the economy expanded at a solid 3% annual rate in the April-June quarter. Growth likely continued at roughly that pace in the just-completed July-September quarter.

Cooling inflation, solid hiring and healthy growth could erode former President Donald Trump's advantage on the economy in the presidential campaign as measured by public opinion polls. In some

surveys, Vice President Kamala Harris has pulled even with Trump on the issue of who would best handle the economy, after Trump had decisively led President Joe Biden on the issue.

At the same time, most voters still give the economy relatively poor marks, mostly because of the cumulative rise in prices over the past three years.

For the Fed, last week's much-stronger-than-expected jobs report fueled some concern that the economy might not be cooling enough to slow inflation sufficiently. The central bank reduced its key rate by an outsized half-point last month, its first rate cut of any size in four years. The Fed's policymakers also signaled that they envisioned two additional quarter-point rate cuts in November and December.

In remarks this week, a slew of Fed officials have said they're still willing to keep cutting their key rate \* but at a deliberate pace, a signal that any further half-point cuts are unlikely.

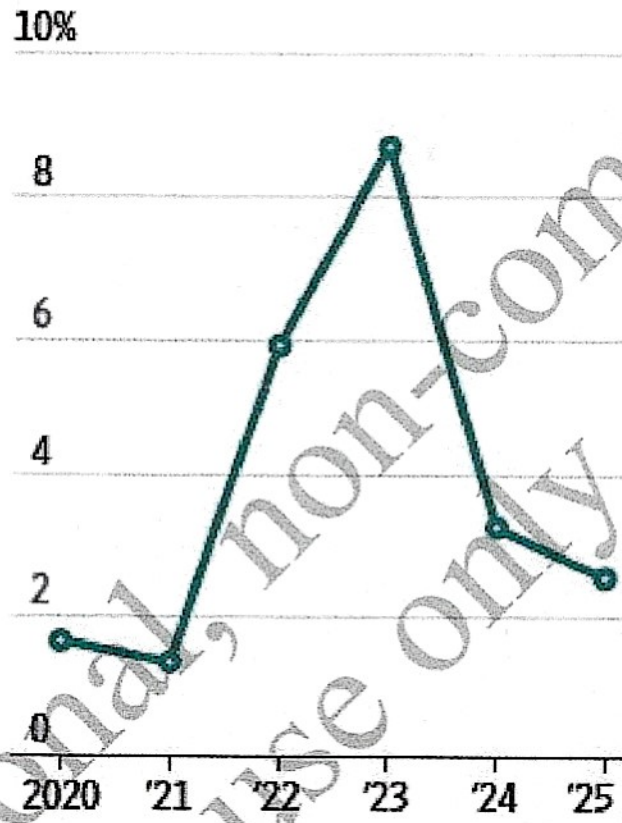
The Fed "should not rush to reduce" its benchmark rate "but rather should proceed gradually," Lorie Logan president of the Federal Reserve's Dallas branch, said in a speech Wednesday.

Inflation in the United States and many countries in Europe and Latin America surged in the economic recovery from the pandemic, as COVID closed factories and clogged supply chains. Russia's invasion of Ukraine worsened energy and food shortages, pushing inflation higher. It peaked at 9.1% in the U.S. in June 2022.

Economists at Goldman Sachs projected earlier this week that core inflation will drop to 3% by December 2024. And few analysts expect inflation to surge again unless conflicts in the Middle East worsen dramatically.

Though higher prices have soured many Americans on the economy, wages and incomes are now rising faster than costs and should make it easier for households to adapt. Last month, the Census Bureau reported that inflation-adjusted median household incomes — the level at which half of households are above and half below — rose 4% in 2023, enough to return incomes back to their pre-pandemic peak.

**Social Security cost-of-living adjustments**



Source: Social Security Administration

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