First Trust
Weekly OUTLOOK

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www.ftportfolios.jp • 27 October 2025

A Shutdown Government Delivers One CPI Report

A small part of the federal government took a short break from being shut to make sure the Labor Department could deliver the September Consumer Price Index.

What made this particular CPI report so special? Because the Social Security Administration needs this inflation report to calculate and announce the Cost-of-Living-Adjustments (COLAs) for Social Security beneficiaries for 2026. As a result, this legal requirement magically and temporarily transformed some government statisticians into "essential" workers – who have to report to work during shutdowns – versus "non-essential" workers, who don't have to report to work.

The report also gave the Federal Reserve and the general public a glimpse at recent inflation trends and there the news was mixed.

Yes, the September CPI was reported slightly below the consensus forecast with overall inflation at 0.3% versus an expectation of 0.4%. The "core" CPI, which excludes food and energy, rose 0.2% versus an expected 0.3%. Both overall and core prices are up 3.0% from a year ago, which is above the Fed's supposed target of 2%.

In fact, since Jerome Powell took the helm at the Fed, consumer price inflation has averaged 3.5% annualized. But, if we look at just the last 8 months (since January, which would include new tariffs) overall prices are up at an annual rate of 2.5% with core prices up 2.7%. In September it was energy prices that held the inflation number up, and we get it, every month it seems to be one thing or another. So, some are arguing that inflation is being stubborn and won't come down.

But, if we look at the M2 money supply, which has grown 6.4% per year with Powell at the helm of the Fed, in the past twelve months it is up only 4.8%. If we compare to the M2 peak during COVID, in March 2022, the money supply is up a total of just 2.0% in the past 40 months. This slowdown in money growth should help keep inflation on a downward trajectory. No, prices will not return to levels that existed before the surge in inflation during COVID, but the rate of increase in those prices should slow.

One piece of good news in the report was that housing cost increases are cooling off. Rent growth slowed noticeably in September and was up only 3.5% from a year ago, the smallest twelve month change since 2021. To put this in perspective, annual rent growth peaked at 8.3% in early 2023.

The reason this is important is because rent makes up about 35% of the overall CPI and other data suggest rents will continue to decelerate. A quarterly series called the "new tenant rent index" teases out the rent that is paid by new tenants only. Historically, this new tenant rent index leads the overall shelter part of the CPI by a year, which makes sense given that many apartment or home leases last one year.

The key is that this index plummeted in the second quarter of 2025, dropping 8.4% in that one quarter alone (for a drop at a 29.6% annual rate – not a typo!), by far the steepest drop for any quarter on record going back the last twenty years. In other words, the rent portion of the CPI is likely to cool noticeably in the year ahead, which could help quell fears of high inflation and create room for some more modest rate cuts ahead.

And in spite of all the talk from the Fed about trying to preserve its "independence," we think Chairman Jerome Powell's legacy – he will almost certainly be replaced by May 2026 – is the subordination of monetary policy in 2020-2021 to "COVID Catastrophism," resulting in the highest inflation since the early 1980s. Not only did Powell fund the government's massive deficits at inappropriately low interest rates, but he also misused cash flow from the Fed's portfolio of assets to pay for politicized research and activity well beyond the Fed's statutory mandate.

The legacy will also include "standing up to" presidents when he thinks it suits him but not when he doesn't, which means not really standing up to presidents as much as picking and choosing what political causes he wants to champion, like growing the size of the federal government.

The next few years will be critical for whether investors' expectations of inflation remain anchored or creep up like they did in the late 1960s and throughout the 1970s. There are reasons for some optimism in the short-run on inflation, but we still remain more concerned about the long-term.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-31 / 8:45 am	Chicago PMI – Oct	42.5	**41.4**		40.6