



This Economic Update may include opinions, forecasts, projections, estimates, assumptions and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial or other plan or decision.

August Consumer Price Index: Inflation Picking Up, But Increase Is Not Broad Based

- The total CPI rose by 0.4 percent (0.370 percent unrounded) in July; the core CPI rose by 0.4 percent (0.385 percent unrounded)
- On a year-over-year basis, the total CPI is up 1.3 percent and the core CPI is up 1.7 percent as of August

The total CPI rose by 0.4 percent in August, matching our above-consensus forecast and leaving the total CPI up 1.3 percent year-on-year. The core CPI also rose by 0.4 percent in August, larger than the 0.3 percent increase we and the consensus expected, which leaves the core CPI up 1.7 percent year-on-year. As was the case with the July data, when both the total CPI and the core CPI came in ahead of expectations, August's increases were driven by large changes in a relatively small number of components, with apparel, air fares, and used motor vehicles the primary culprits, with prices for used motor vehicles posting an even larger increase in August than was the case in July. More broadly, inflation pressures remain fairly subdued, and it is notable that the pace of rent growth has slowed sharply over recent months, notable in that rents account for over 40 percent of the core CPI. It also helps to recall that it is the PCE Deflator, not the CPI, that acts as the FOMC's preferred gauge of inflation, and core CPI inflation has persistently run far ahead of core PCE inflation – 38 basis points, on average, over the past five years. So, despite Fed Chairman Powell at the Jackson Hole conference seemingly having extended an open invitation, it seems unlikely that inflation pressures will announce their arrival in the broader economy any time soon.

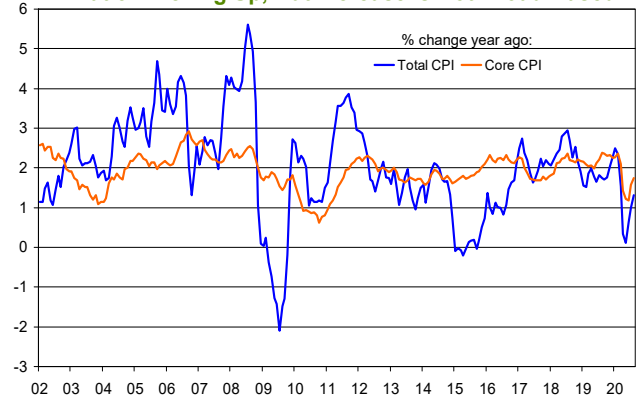
Retail gasoline prices were up by 2.0 percent on a seasonally adjusted basis in August. As we noted in this week's *Economic Preview*, this simply reflects prices being flat on an unadjusted basis this August, contrary to the decline that is typical for the month and for which the seasonal adjustment factors are geared. The overall energy index was up by 0.9 percent in August, but is nonetheless down 9.0 percent year-on-year. Food prices were up by 0.1 percent in August, with prices for food consumed at home down 0.1 percent and prices for food consumed away from home up 0.3 percent. Though having fallen sharply in July and declined further in August, prices for food consumed at home are still up 4.6 percent year-on-year. Primary rents were up by 0.1 percent in August, the unrounded increase of 0.089 percent is the smallest such increase since October 2010, with primary rents up by 2.9 percent year-on-year, the smallest such increase since September 2013. Rents are likely to remain under pressure in the months ahead, given the considerable degree of labor market slack and an intimidatingly large backlog of multi-family units under construction.

After having risen by 0.7 percent in July, core goods prices jumped by 1.0 percent in August. While a weaker U.S. dollar would be expected to push up prices of imported goods, it is likely too soon for any such effect to have turned up in the CPI data. Instead, the newly found vigor in core goods prices is more a reflection of a surge in prices for used motor vehicles and sizable increases in apparel prices. Prices for used vehicles rose by 5.4 percent in August after having risen by 2.3 percent in July. It is worth noting that the CPI's measure of used motor vehicle prices had lagged behind other measures in picking up rising prices, so the increases reported in the CPI data for the past two months reflect some degree of catching up. That said, with stronger than anticipated demand and what have become fairly slim inventories, prices for used motor vehicles are likely to rise further in the months ahead. As for apparel prices, which seemingly have become little more than random noise in the CPI data, they were up by 0.6 percent in August, which followed increases of 1.7 percent in June and 1.1 percent in July.

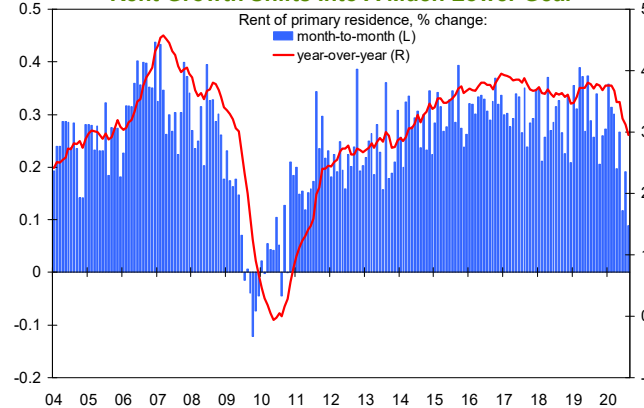
In our Economic Preview, we flagged the broad education and communications category as a wild card in the August CPI data. That many colleges opened the school year with remote instruction as opposed to in-class instruction has led some to cut tuitions, and indeed college tuitions and fees fell by 0.7 percent in August. At the same time, however, we noted that increased remote instruction could have led to further upward pressure on computer and telecommunications equipment, which proved to be the case. These factors largely offset each other, with the broad category seeing an increase of just 0.1 percent in August, and coming months will likely see these recent patterns reverse.



Inflation Picking Up, But Increase Is Not Broad Based



Rent Growth Shifts Into A Much Lower Gear



Services Inflation Likely To Slow Further

