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August Consumer Price Index: Core Inflation Continues To Slow, But For How Long?

- > The total CPI rose 0.6 percent in August (up 0.631 percent unrounded); the core CPI rose 0.3 percent (up 0.279 percent unrounded)
- > On a year-over-year basis, the total CPI is up 3.7 percent and the core CPI is up 4.3 percent as of August

The total CPI rose by 0.6 percent in August, matching the consensus forecast but shy of the 0.7 percent increase we expected, while the core CPI rose by 0.3 percent, matching our above-consensus forecast. On a year-on-year basis, the total CPI is up 3.7 percent, and the core CPI is up 4.3 percent, and while that is down from the 4.7 percent increase in July, keep in mind that the core CPI is benefitting from the same favorable base effects that led to more moderate year-on-year increases in the headline CPI in the May and June data. That will also be the case in the September data, after which core inflation will look at least a bit faster. How much faster remains to be seen, as pass-on effects from higher fuel prices, potential distortions should the UAW engage in a prolonged strike, and higher readings on health insurance premiums could all push core inflation higher. As for the August data, higher energy prices were the primary culprit behind the jump in the total CPI, while payback from what had been oddly large monthly declines in air fares and a sizable jump in auto insurance costs helped push the core CPI higher. Between signs of some cooling in labor market conditions, questions about the reliability of the data notwithstanding, and the moderation in core inflation, the FOMC has plenty of grounds to stand pat at next week's meeting. If, however, we are correct in thinking core inflation may start to reaccelerate, the November FOMC meeting will remain in play.

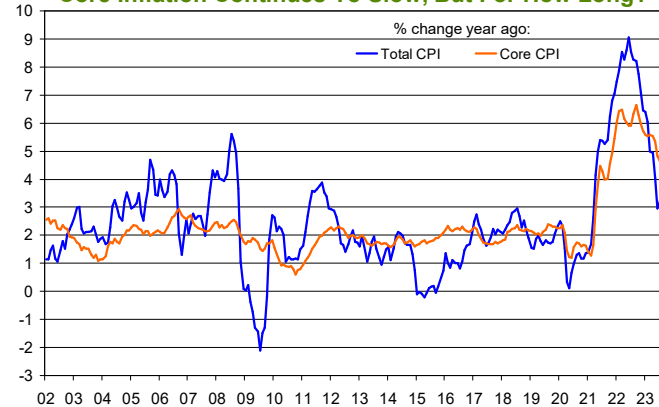
The broad energy index rose by 5.6 percent in August, with retail gasoline prices up 10.6 percent, an increase which added around four-tenths of a point to the monthly change in the total CPI. It is worth noting that on a not seasonally adjusted basis, gasoline prices were up by "only" 5.9 percent, but with the August seasonal factor anticipating a sizable decline in prices, the result is the much larger increase reported in the seasonally adjusted data. Higher crude oil prices and refinery outages contributed to the jump in retail gasoline prices from mid-July through late-August, and with crude oil prices having since pushed higher and likely to continue to do so, gasoline prices could remain under pressure at a time when seasonal patterns tend to yield falling prices. If so, that could lead to further outsized increases in the seasonally adjusted CPI data in the months ahead. Diesel fuel costs have also risen significantly and are also likely to push higher, and to the extent that higher fuels costs lead to higher shipping costs, that can feed into higher core inflation, as can higher air fares resulting from higher airline fuel costs. Food prices were up 0.2 percent, a smaller increase than we had anticipated based on recent movements in commodity prices and prices on the wholesale level. Though the 4.3 percent year-on-year increase in the total food index is the smallest such increase since August 2021, consumers can be excused if not feeling all that much relief in light of the cumulative increase of 23.5 percent since the onset of the pandemic, easily ahead of the cumulative increase in the total CPI.

Core goods prices were down 0.1 percent in August, helped along by a 1.2 percent decline in prices of used motor vehicles; excluding used vehicles, core goods prices were up 0.1 percent. Still, many categories, such as electronics and appliances, show prices fell in August, with prices for apparel and new motor vehicles providing upside support. Weak pricing is one reason we have low expectations for the report on August retail sales to be released later this week.

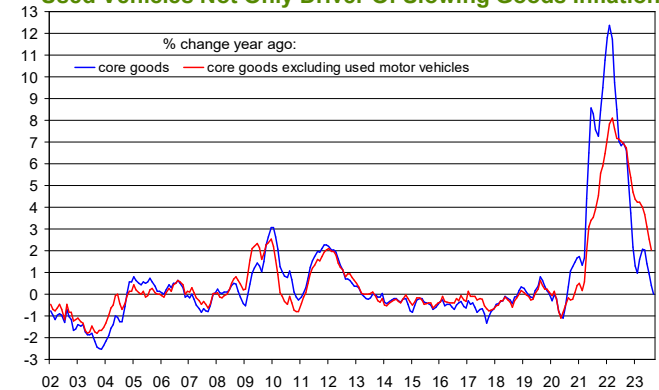
Core services prices rose by 0.4 percent in August, leaving them up 5.9 percent year-on-year. While this reflects a slight moderation in core services inflation, that is clearly where inflation pressures are proving to be the most stubborn. Though the increase in owners' equivalent rents eased a bit in August, there was a larger increase in primary rents than that seen in July. Air fares rose by 4.9 percent, the first monthly increase since March, but the not seasonally adjusted data show a further decline, as is the case with lodging costs. Rental car rates were up 1.3 percent in August, while auto insurance premiums were up by 2.4 percent, leaving them up 19.1 percent year-on-year as providers continue to readjust premiums in the face of rising costs as traffic volumes and incident rates continue to rise from notably low levels during the pandemic.



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Used Vehicles Not Only Driver Of Slowing Goods Inflation



Rents Have Turned, But Still Lag On The Way Down

