ECONOMIC UPDATE

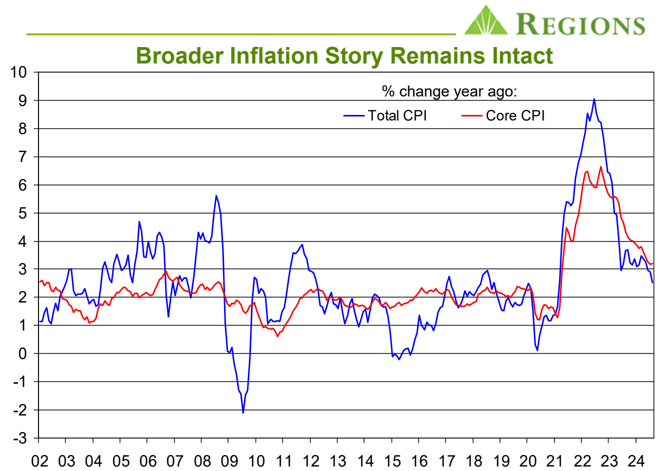
REGIONS

September 11, 2024

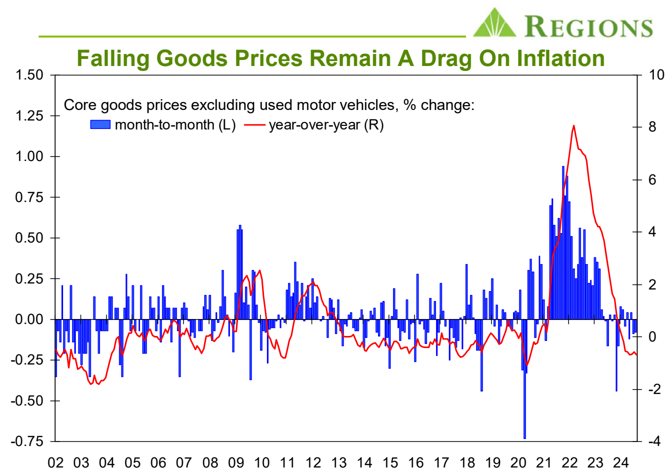
August Consumer Price Index: Broader Inflation Story Remains Intact

- The total CPI rose by 0.2 percent in August (up 0.187 percent unrounded); the core CPI rose by 0.3 percent (up 0.280 percent unrounded)
- On a year-over-year basis, the total CPI is up 2.5 percent and the core CPI is up 3.2 percent as of August

The total CPI rose by 0.2 percent in August while the core CPI rose by 0.3 percent, each one-tenth more than our forecast anticipated. On an over-the-year basis, the total CPI is up 2.5 percent and the core CPI is up 3.2 percent. We can directly tie our forecast miss to two specific factors: residual seasonality in prices for travel services which turned declines in the not seasonally adjusted data into sizable increases in the seasonally adjusted data, and yet another puzzlingly large increase in rents, contrary to the slight moderation we expected to see. In this sense, the headline numbers on the August CPI release are a bit misleading, but the broader story remains the same. Though inflation remains above the FOMC's 2.0 percent target, there has been more than enough progress on the inflation front to allow the FOMC to shift their focus to the full employment side of their dual mandate and, as such, begin cutting the Fed funds rate at this month's meeting. Though some had looked to the August CPI data as potentially opening the door for a fifty basis point funds rate cut next week, we never thought that was likely, and the size and cadence of subsequent cuts will be driven more by the labor market data than by the inflation data.

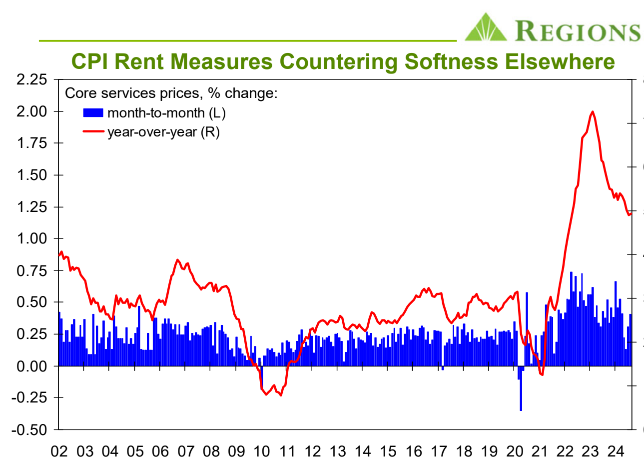


In our preview of the August CPI release, we noted that while we expected the not seasonally adjusted data to show further declines in prices for travel services – air fares, lodging rates, rental car rates – the August seasonal factors were tougher than those applied to the June and July data, meaning that the seasonally adjusted data could easily show prices for these services rising. To that point, the not seasonally adjusted data show air fares down by 1.3 percent, lodging rates down by 1.2 percent, and rental car rates down 6.5 percent, while the seasonally adjusted data show air fares up 3.9 percent, lodging rates up 2.0 percent, and rental car rates down 1.5 percent. It isn't that air fares and lodging rates carry a heavy weight in the CPI basket, but the large seasonally adjusted increases in added heft to the monthly changes, particularly in the core CPI, not to mention the "super core" measure of services prices excluding shelter. The far bigger impact came from rents, with primary rents up 0.4 percent and owners' equivalent rents posting their largest monthly increase – up 0.5 percent – since January. As we've noted many times, the CPI measures of rent badly lag market-based measures of rent but, even so, that the CPI data show rent growth once again accelerating is more than a bit puzzling.



The overall index of energy prices was down 0.8 percent in August, with declines in each of the individual components. Gasoline prices were down 0.6 percent, electricity rates were down 0.7 percent, and rates for residential gas services were down 1.9 percent. We will note that given the rapid declines in retail gasoline prices seen thus far in September along with lower crude oil prices, gasoline is shaping up to be a much more pronounced drag on the headline CPI for September. Food prices rose by 0.1 percent in August, with prices for food consumed at home flat and prices for food consumed away from home up 0.3 percent.

Core goods prices fell by 0.2 percent in August, though stripping out prices for used motor vehicles – down 1.0 percent – puts the decline in core goods prices at 0.1 percent and yields an over-the-year decline of 0.8 percent. Prices for home furnishings were down in August, though appliance prices were flat, as were prices for new motor vehicles (which fell on a not seasonally adjusted basis), while prices for computers and cell phones were down sharply. Apparel prices did rise by 0.3 percent, in keeping with seasonal patterns. That prices for many consumer goods continue to fall reflects softer demand, and it is worth noting that falling goods prices are weighing on the reported increases in retail sales, which are reported on a nominal basis (i.e., not adjusted for price changes). Core services prices were up by 0.4 percent compared to a 0.3 percent increase in July but, again, the larger increases in rents account for much of this difference, while the reported increases in air fares and lodging rates helped push the "super core" services metric higher.



That core inflation came in a bit hotter than expected doesn't change much, particularly given why that was the case. We had thought a fifty basis point cut in the Fed funds rate at next week's FOMC meeting to be unlikely even before the August CPI data hit the wires, and in the wake of the August CPI data the odds of that are even lower.

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