

Datanote: US CPI, August

In one line: Don't panic, it's noise not signal; the core PCE probably rose by about 0.22%.

- The August CPI rose by 0.2%, matching the consensus, 0.2%.
- The core increased by 0.3%, above the consensus, 0.2%.

The fundamental story of sustained disinflation remains unaltered by this

CPI report. The August pick up in the core index was driven by components that have a much smaller weight in the core PCE deflator—the Fed’s preferred inflation gauge—or which are sourced from the PPI.

The 0.37% increase in primary rents, following July’s 0.49% increase, was punchy, but Zillow data show that new rents have increased at only a modest pace for the past two years. The run rate of CPI primary rents, which covers the whole market, will converge to the

Zillow data in due course. Meanwhile, August's 0.50% increase in owners' equivalent rent—0.13pp above primary rents—is just sampling noise around the trend set by the primary rent numbers. OER undershot primary rents by 0.13pp in July, so August's big increase in OER simply reflects this differential unwinding. The sharp increase in the weight of single-family detached homes in the OER sample in January impacted the month-to-month change in OER for the last time in June—by design, monthly changes are the sixth root of

the change from six months ago—so we see no basis for assuming a positive OER-primary rent spread ahead. Note too that rents account for only 18% of the core PCE, far less than their 43% weight in the core CPI.

Meanwhile, the 0.33% increase in the core services ex-rents index largely is due to the reversal of some erratic price falls in previous months. A 0.4% increase in hospital services prices, after July's 1.0% drop, contributed 0.03pp to the change in core services

ex-rents. Modest increases in out-of-pocket hospital charges should be the norm over the rest of this year. More importantly, airline fares prices jumped by 3.9%, ending a five-month declining streak and contributing 0.12pp to the change in core services ex-rents. Month-to-month changes in CPI airline fares this year have closely mirrored those 12 months earlier, indicating that the pandemic knocked the seasonal adjustment process off-kilter. Month-to-month increases in CPI airlines fares moderated over the final four months of

2023, and we expect this pattern to be repeated again this year.

Reassuringly, our core-core services index, which removes the airline fare, auto repair and insurance, health insurance, hospital services, and accommodation services components from core services ex-rents, was unchanged in August, and the annualized rate in the three months to August, compared to the previous three months, dropped to just 2.1%, from 2.3% in July.

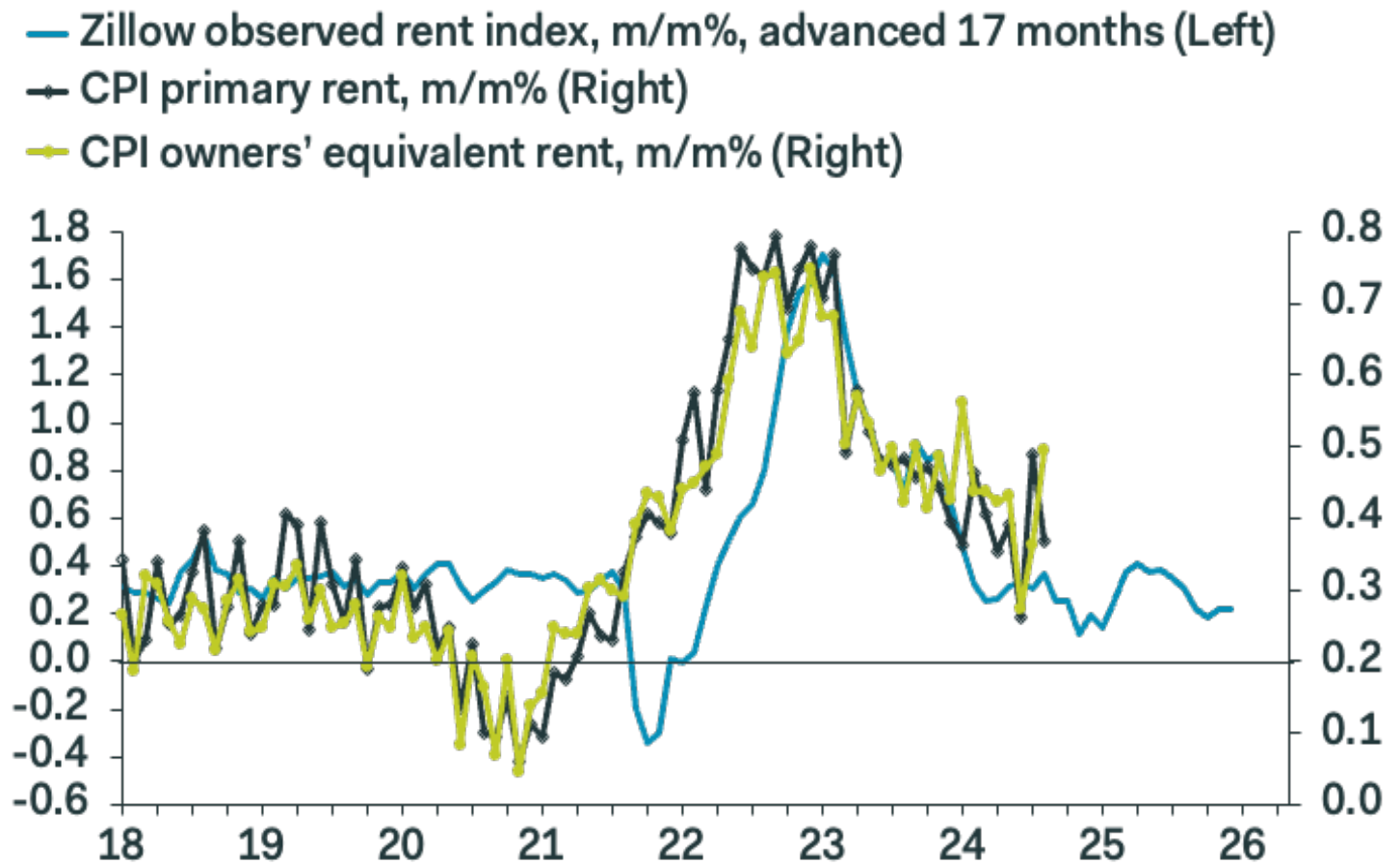
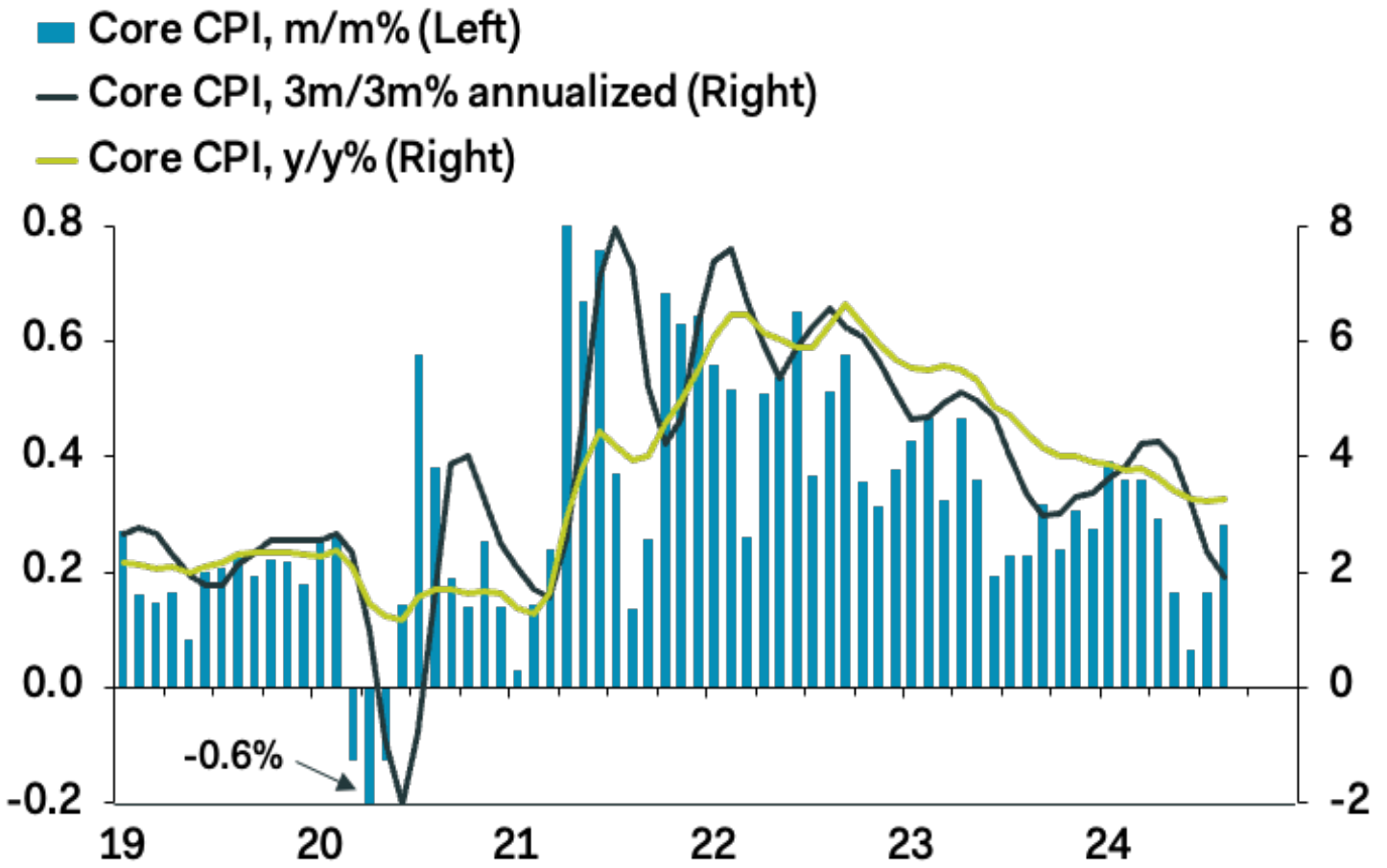
Elsewhere, core goods prices fell by 0.2%, driven in equal measure by autos and other goods. Used auto prices fell a further 1.0%, extending the decline since the February 2022 peak to 20.2%. New vehicle prices were unchanged, following six straight months of declines, but shaky consumer demand and high inventory suggest prices probably still have further to drop. Overall, the trend in goods prices remains flat, if not slightly falling.

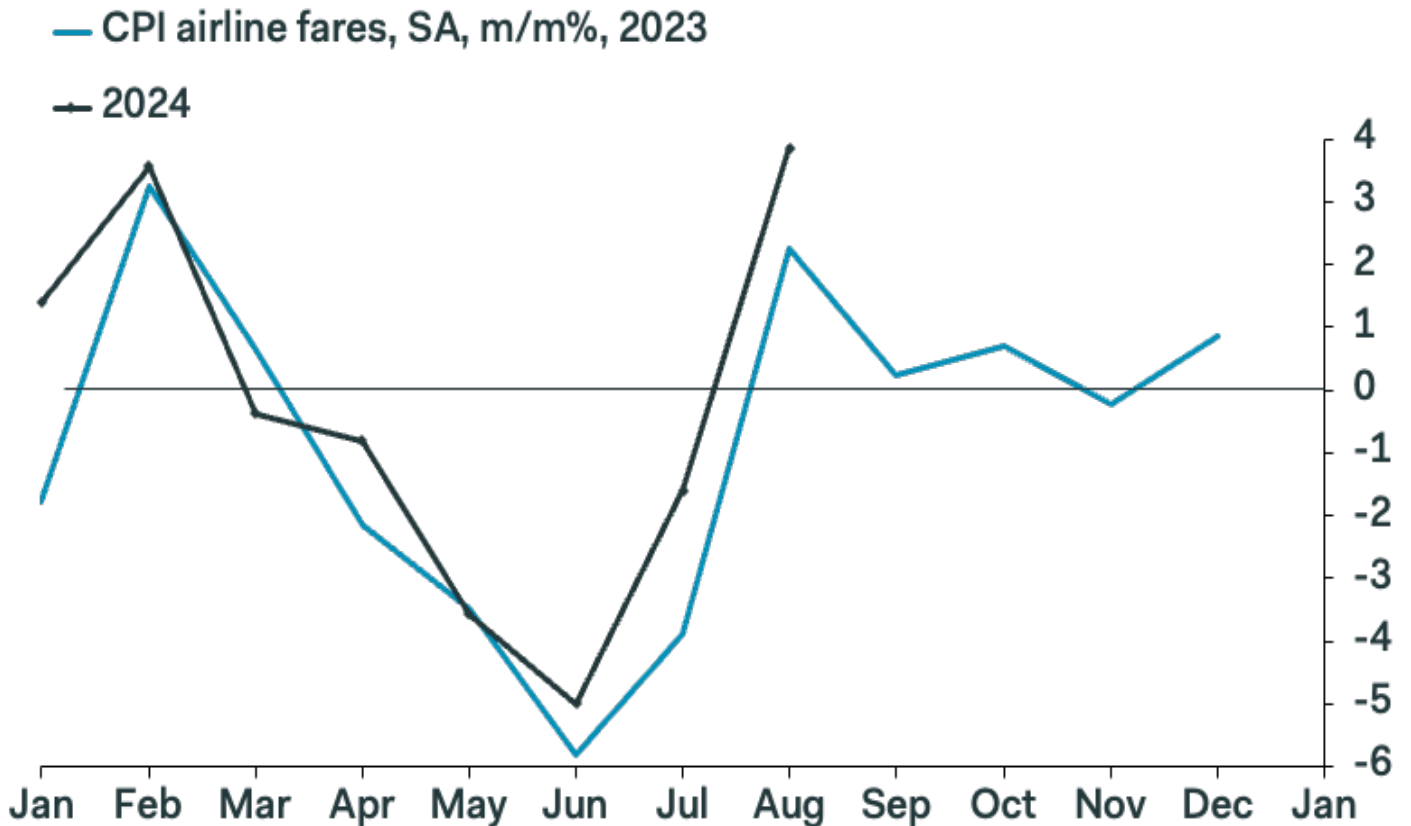
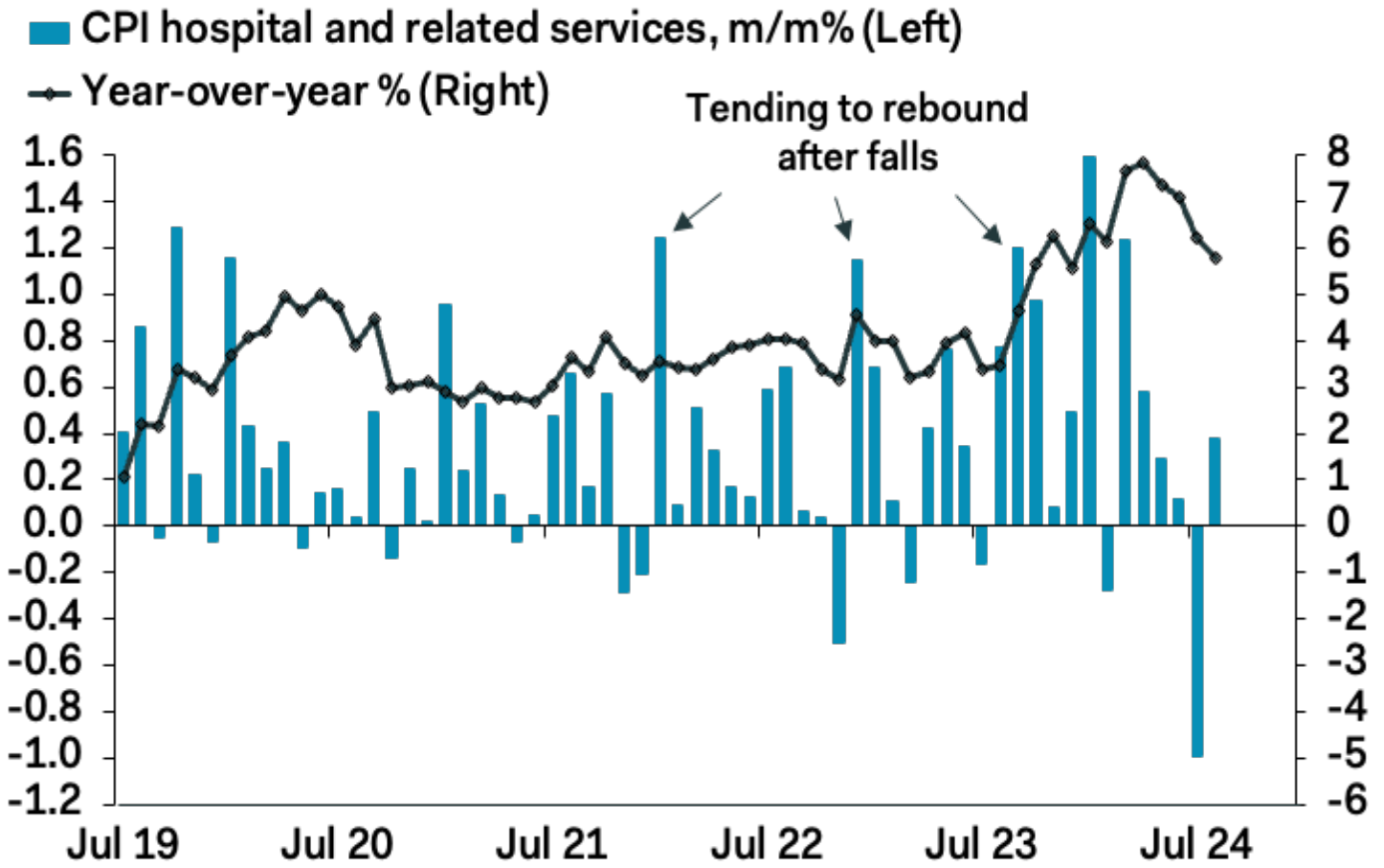
Two-thirds of the components of the core PCE deflator are derived from CPI data, with most of the remainder derived from the PPI. After today's CPI data, we provisionally forecast that the core PCE deflator increased by 0.22% in August, but we will refine our estimate tomorrow, when the PPI numbers are released. That would exceed the 0.14% average increase in the previous three months, but wouldn't be a game-changer for the FOMC. Indeed, the Committee should still be able to lower its forecast in the September Summary

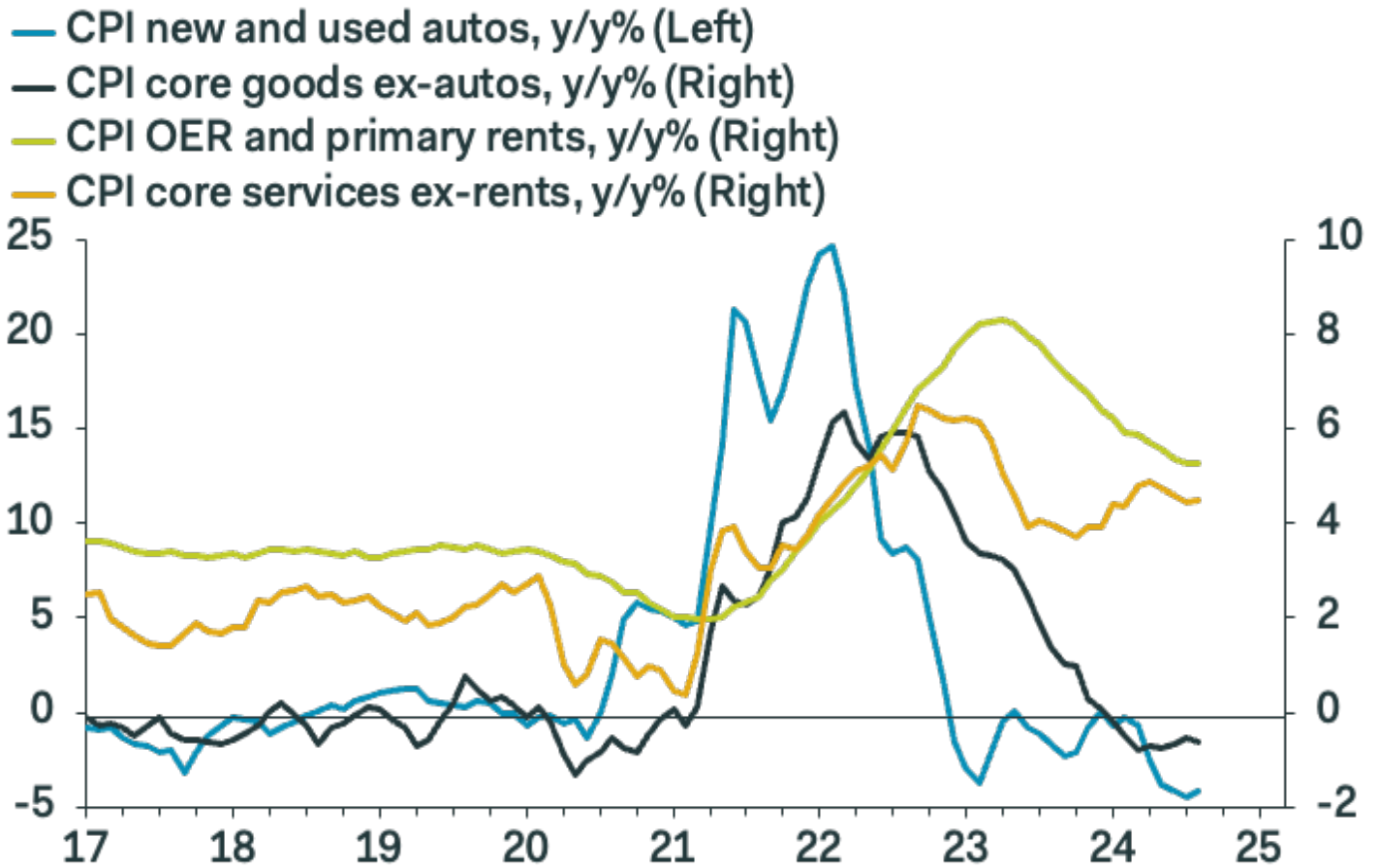
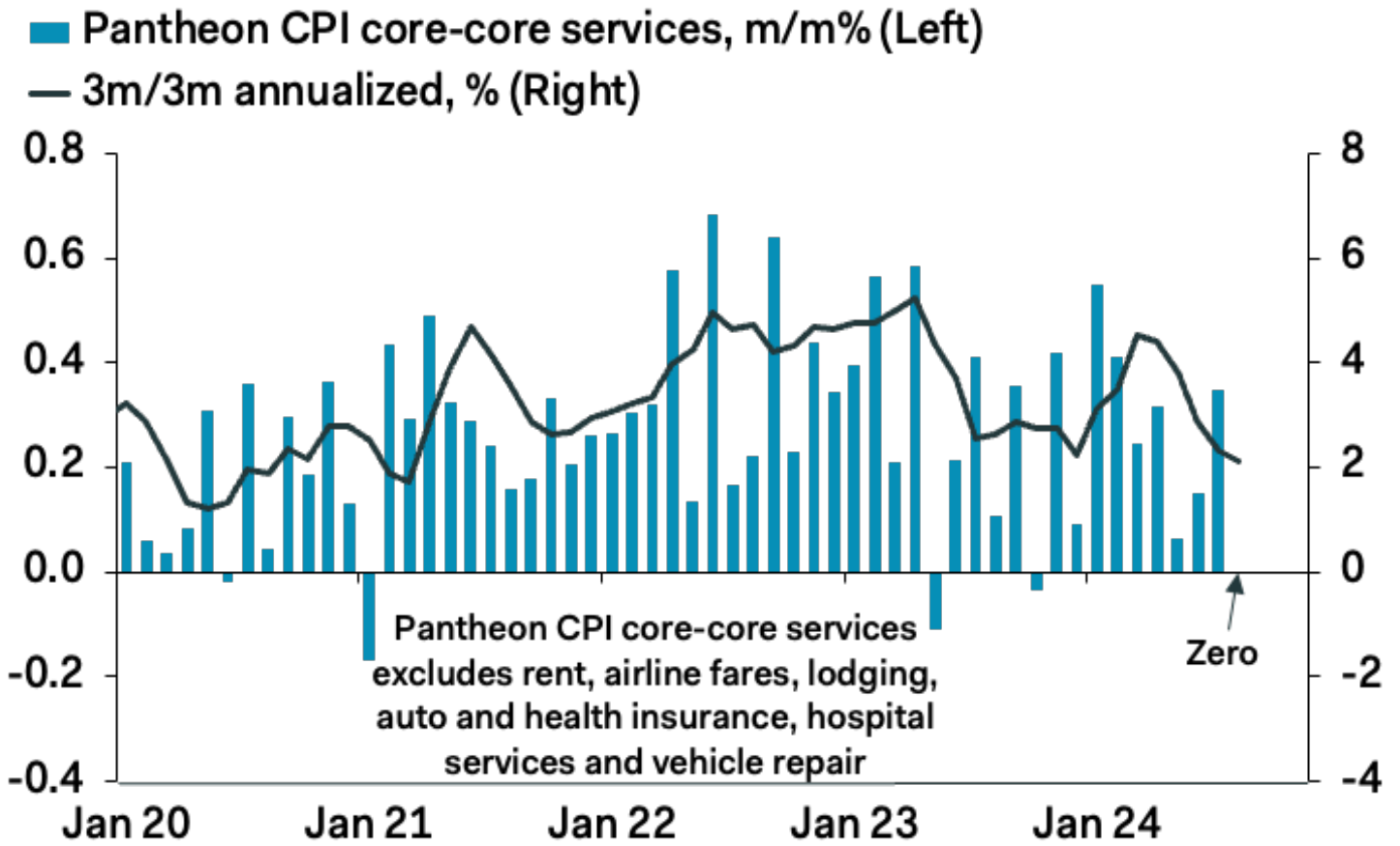
of Economic Projections for the average year-over-year increase in the core PCE deflator in Q4 2024 to about 2.6%, from 2.8% in June's SEP.

Looking ahead, every measure of pipeline price pressures still is giving a clear benign steer on the inflation outlook. Oil prices have tumbled over the last two months, while global food prices have largely flatlined. Supply chains remain frictionless and shipping costs have begun to come back down. Gross margins remain flat, while new

rent increases, as captured by Zillow, are small and steady. And wage growth is continuing to track the quits rate, which has just dropped slightly below its pre-Covid level. Accordingly, we continue to expect core CPI inflation to ease over coming months, reaching 2% in the first half of 2025, despite August's CPI report.







- Contrib. from components largely derived from other sources
- Contrib. from components derived from PPI data
- Contrib. from components derived from CPI data
- Core PCE deflator, m/m%

August is Pantheon estimate based on CPI data & PPI forecast

