

# US CPI (Aug)

## Economics - Data Reactions

### Complicated signals

### United States

- ◆ Headline CPI increased 0.6% m-o-m (consensus 0.6%) and core CPI increased 0.3% m-o-m (consensus 0.2%) in August
- ◆ The details were mixed: airfares rebounded, vehicle price inflation has cooled notably since 2022, and rental inflation is slowing gradually
- ◆ We expect the FOMC to keep federal funds target range at 5.25-5.50% until Q2 2024; we forecast 75bp of rate cuts in 2024 as inflation declines

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### Facts

Headline CPI rose 0.6% m-o-m (0.63% unrounded). The y-o-y rate rose to 3.7% from 3.2%.

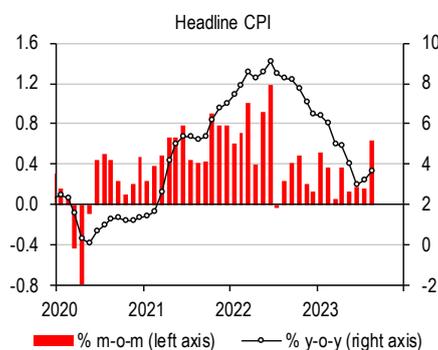
Core CPI rose 0.3% m-o-m (0.28% unrounded). The y-o-y rate fell to 4.3% from 4.7%.

### Implications

Headline CPI was boosted in August by a 10.6% m-o-m rise in motor fuel prices. The household energy price index rose 0.6% m-o-m. The food price index rose 0.2% m-o-m. As we explained last month, y-o-y headline CPI inflation (figure 1) likely saw its low for 2023 at 3.0% in June and could average around 3.5% in the second half of this year (see [US inflation briefing \(Jul\), Slower core](#), 11 August 2023).

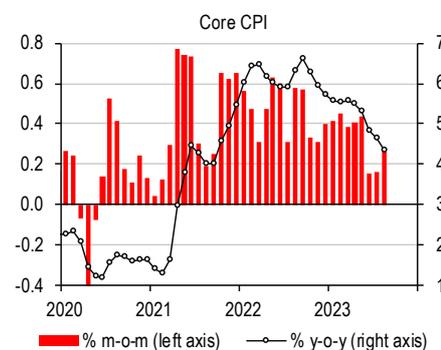
Although the m-o-m rise in core CPI in August was the highest in three months, the y-o-y rate of core CPI inflation continued to fall (figure 2). This presents a complication for FOMC policymakers, who will likely assess the underlying details of the data in an effort to anticipate whether underlying core inflation pressures are reaccelerating or diminishing.

#### 1. Headline CPI boosted by a sharp rise in motor fuel prices in August



Note: Month-on-month changes are seasonally adjusted.  
Source: Bureau of Labor Statistics

#### 2. Core CPI rose 0.3% m-o-m, the highest reading in three months



Note: Month-on-month changes are seasonally adjusted.  
Source: Bureau of Labor Statistics

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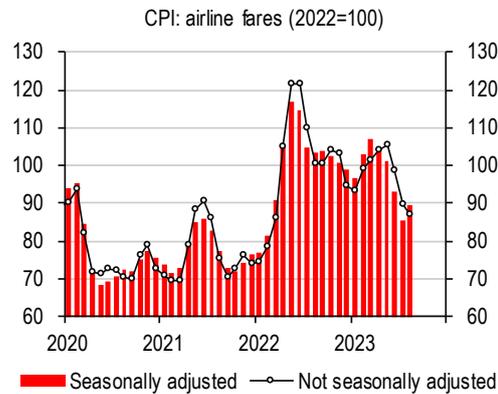
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As always, there are quirks in the CPI data that can make this assessment challenging. As shown in figure 3, the price index for airline fares rose 4.9% m-o-m in August, following a cumulative decline of 20.1% over the previous four months. These numbers refer to the seasonal adjusted changes in the airfares price index. The not seasonally adjusted price index for airfares actually declined in August, but not as much as anticipated by seasonal adjustment factors. While airline fares are clearly very volatile, we do not view any of the recent monthly changes as indicating a sharp collapse (or boom) in demand for air travel.

Figure 4 shows prices for used vehicles as measured in the CPI; the auto sector is another area where the data can be tricky to interpret. The used vehicle price index fell 1.2% m-o-m in August, but the overall trend so far in 2023 has been sideways movement rather than steep increases or declines. The absence of a larger drop in used vehicle prices this year, after the earlier surge in previous years, shows that underlying demand for vehicles has remained resilient. Nonetheless, the latest Federal Reserve Beige Book report showed that some consumers are facing affordability constraints in the vehicle market. In addition, improved new vehicle production and inventory this year has helped boost new vehicle sales, and in some cases this may have pulled some demand away from used vehicles.

### 3. Airline fares rose 4.9% m-o-m in August, the first increase in five months



### 4. Used vehicle prices have cooled off since 2022 but have not collapsed

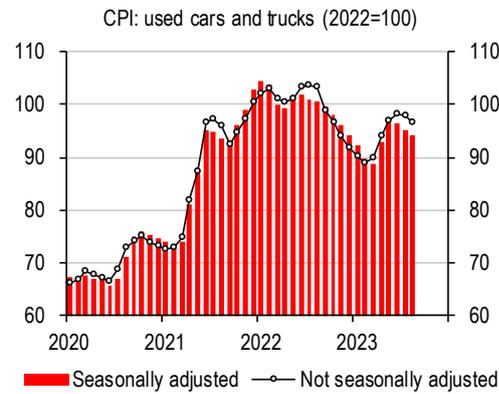
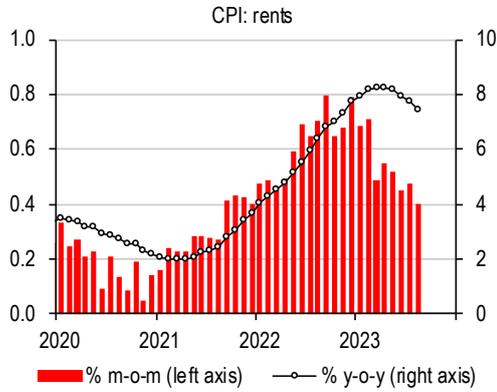


Figure 5 shows that rental inflation as measured in the CPI continues to slow gradually. The weighted average m-o-m increase in rents was 0.4% in August, the smallest increase since December 2021. The y-o-y rate of increase was still quite elevated in August, at 7.4%, but we expect further declines over the rest of this year.

At the Jackson Hole symposium, Fed Chair Jerome Powell said that because “leases turn over slowly, it takes time for a decline in market rent growth to work its way” into the measurement in the CPI. Figure 6 shows one measure of market-rate rents, from Zillow, as well home prices as reported by Zillow. Chair Powell noted that “slowing growth in rents for new leases over roughly the past year” was in the pipeline and would likely affect measured housing services inflation over the coming year. However, the Zillow data on rents have moved higher in recent months, complicating the medium-term outlook. Indeed, Chair Powell noted that policymakers would “continue to watch the market rent data closely for a signal of the upside and downside risks to housing services inflation.”

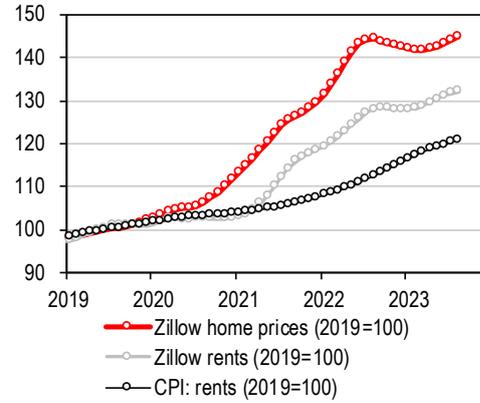
**5. Rental inflation in the CPI continues to slow gradually...**



Note: Month-on-month changes are seasonally adjusted. Rents = weighted average of rent of primary residence and owners' equivalent rent indexes.

Source: Bureau of Labor Statistics

**6. ...but recent increases in market-rate rents complicate medium-term outlook**



Source: Zillow, Bureau of Labor Statistics

# Disclosure appendix

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