

Economic Indicator — September 11, 2025

August CPI: Dog Days of Summer

Summary

The heat continues to gradually get turned up on inflation. Consumer prices in August came in a bit hotter than expected, with the CPI rising 0.4% versus consensus expectations for a 0.3% rise. Excluding food and energy, prices advanced 0.346%—in line with the consensus on a rounded basis but also a little stronger on an unrounded basis.

Goods inflation continued to pick up, posting its largest monthly gain since January. The initial burst of higher prices following increased tariffs this spring seemed to fade slightly in some categories like recreational goods and household furnishings, but a jump in vehicle prices over the month illustrated that upward pressure on goods prices from tariffs won't feed into consumer prices in a uniform fashion. It is also not just higher goods prices lifting inflation. Core services advanced 0.35% in August amid a rebound in travel-related prices and owners' equivalent rent.

For the FOMC, a core CPI reading of 0.35% and a three-month annualized rate of 3.6% is not what the Committee wants to see as it prepares to cut rates for the first time in 10 months. That said, as we have [highlighted elsewhere](#), the downside risks to the labor market have grown considerably over the past couple of months, creating more urgency to act to keep the jobs market from falling apart. The FOMC also may take comfort in the more benign PCE inflation implications from today's CPI report and yesterday's PPI report. Taken together, we project that the PCE and core PCE deflators rose 0.26% and 0.22%, respectively, in August.

We suspect the broadening cost burden from tariffs will keep the monthly pace of goods inflation elevated through early next year, but the spillover into services inflation should be limited by the weakness in the jobs market, choosier consumers and anchored inflation expectations. As such, today's print does not alter our expectation for the Fed to cut by 25 bps at its September meeting next week and by 75 bps total by year-end.

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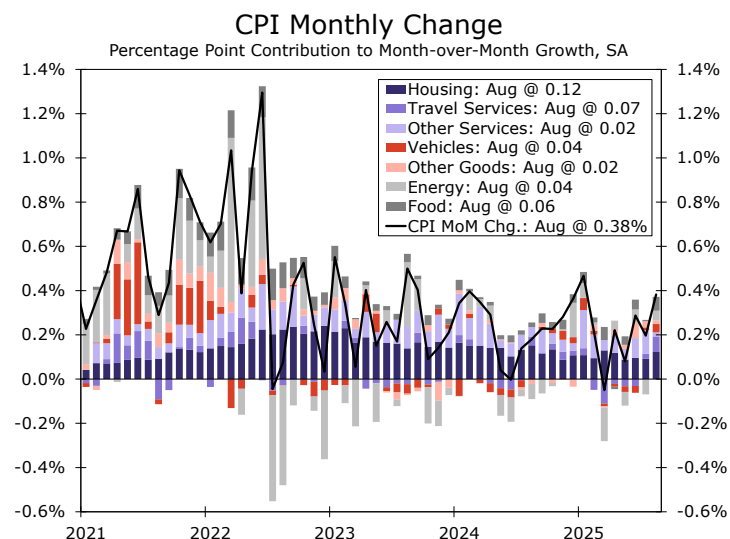
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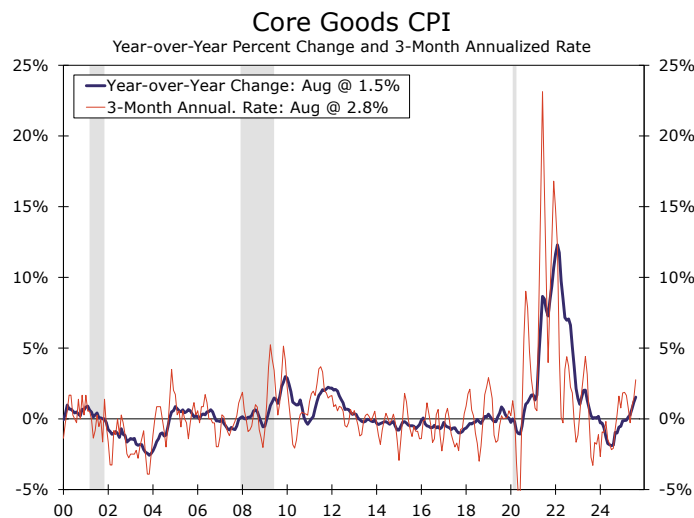
Source: U.S. Department of Labor and Wells Fargo Economics

Inflation Remains Sticky in August

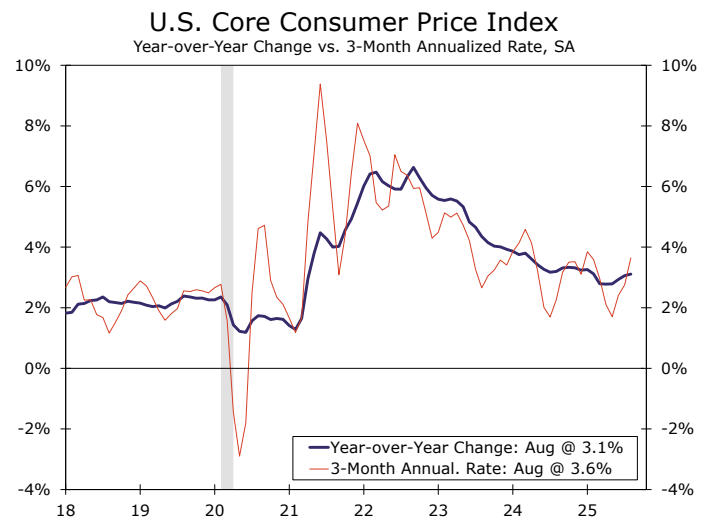
Consumer prices rose 0.4% in August, the largest month-over-month increase in prices since January and a little bit hotter than consensus expectations. Excluding food and energy, prices rose 0.3% and just missed rounding to 0.4% (the unrounded increase was 0.346%). Core goods prices rose 0.3%, matching the highest reading of the year in a sign that higher prices due to tariffs continue to build. Apparel prices jumped 0.5% in the month, while new and used vehicle prices rose 0.3% and 1.0%, respectively. Monthly inflation for alcoholic beverages (+0.6%) and tobacco (+1.0%) were also above their averages over the past year. A decline in medical care commodity prices (think prescription drugs or medical supplies) helped to keep goods prices from rising even faster in August, but even with this assist, the trend in core goods inflation continues to be upwards ([chart](#)).

But, the strength in the August CPI extends beyond just core goods. Travel services inflation jumped on the heels of a few unusually soft monthly readings. Airfares leaped 5.9% last month while lodging away from home grew 2.3%, both above our already elevated expectations. Primary shelter inflation also ran a bit hotter than expected, led by a 0.4% increase in owners' equivalent rents. This marked the second-highest monthly reading for OER in 2025. Here too, the health care sector helped restrain what was otherwise a hot reading for core services. Medical care services inflation was -0.1%, the first month of deflation for this sector in a year.

On balance, today's report kept the year-over-year pace of core CPI inflation unchanged at 3.1%. However, the three-month annualized rate jumped to 3.6%, signaling that the past few months have seen some acceleration in core prices from an already above-target starting point ([chart](#)).



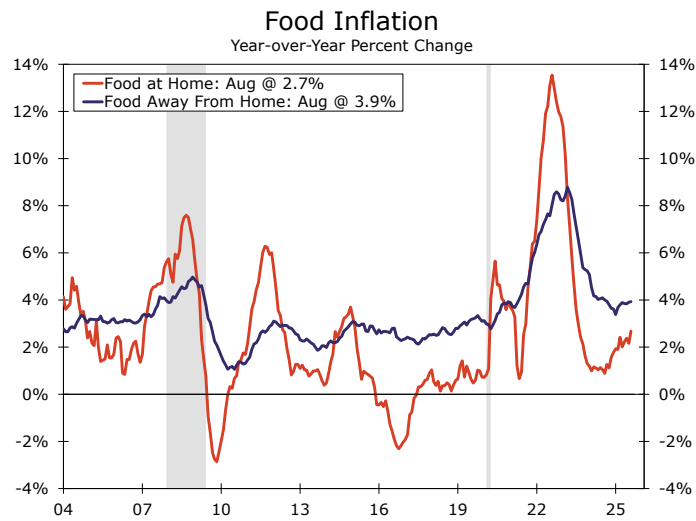
Source: U.S. Department of Labor and Wells Fargo Economics



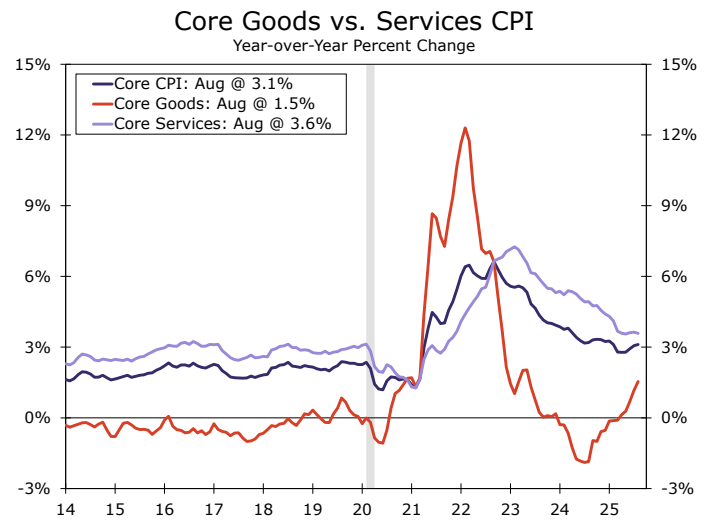
Source: U.S. Department of Labor and Wells Fargo Economics

A jump in food prices (+0.5%) helped to underpin the stronger-than-expected rise in the headline CPI. Prices at the grocery store rose 0.6% and restaurant prices rose 0.3%, leading both series up on a year-over-year basis ([chart](#)). The strengthening in prices for food at home was broad-based, with notable jumps in fresh fruits and vegetables (+2.0%) and meats (+1.8%). The gain was presaged by a firming in the PPI for final demand food over the past three months, hinting that higher tariffs and slower growth in the labor supply could be increasing cost pressures on domestic food suppliers.

Energy prices bounced back from a decline in July. The rebound was primarily driven by a 1.9% rise in gasoline. Energy services (-0.2%) slid for the second straight month, dragged down by natural gas utilities (-1.6%). While consumers have received some modest relief in this category recently, energy services prices are up 7.8% over the past year. Increased electricity demand from data centers coming online has strained utility providers and, along with providers' need to upgrade infrastructure, is likely to keep energy services inflation running ahead of its historical trend in the coming year or so.



Source: U.S. Department of Labor and Wells Fargo Economics



Source: U.S. Department of Labor and Wells Fargo Economics

Consumer prices have risen gradually in response to higher tariffs. Early stockpiling has helped firms delay price hikes, while continued tariff uncertainty and souring consumer confidence have weighed on firms' willingness and ability to pass on higher costs. Yet, as inventories shrink and import growth rebounds, costs are climbing. We suspect the broadening cost burden will keep the monthly pace of goods inflation elevated through early next year. The spillover into services inflation should be limited, however, by weakness in the jobs market, choosier consumers and anchored inflation expectations. Taken together, we expect CPI inflation to continue to run near 3% through the first half of next year.

With the August PPI and CPI data in hand, we estimate headline PCE rose 0.26% and core PCE rose 0.22% last month. If realized, that would keep the year-over-year change in the core PCE, at 2.9%, roughly a percentage point above the FOMC's target. The stickiness in inflation poses a challenge to the FOMC in its effort to balance its dual mandate. Inflation is running above its price stability target and likely will continue to do so for the foreseeable future.

At the same time, the labor market has decelerated markedly. In a separately released report this morning, initial jobless claims jumped to nearly a four-year high. While the lift was primarily concentrated in Texas, the four-week average is tracking above its year-ago level, as are continuing claims. Furthermore, the unemployment rate edged up to cycle-high of 4.3% in August, which is the top end of the FOMC's range consistent with "full employment." As such, today's print does not alter our expectation for the Fed to cut by 25 bps at its September meeting next week. As the FOMC puts increasing weight on employment, we look for a total of 75 bps of easing by year-end followed by another 50 bps of cuts in the first half of next year, leaving the target rate at a roughly neutral range of 3.00%-3.25%.

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