



Economics Group

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CPI Offers Some Relief to Fed Officials Worried About Inflation

In what should temper the concerns of some Fed officials, consumer prices rose 0.4 percent in August. Core prices posted a 0.2 percent increase, but the trend remains tepid relative to the start of the year.

Headline and Core Inflation Strengthen

After three months of lower-than-expected inflation readings, the CPI index came in higher than what markets forecasted. Consumer prices rose 0.4 percent in August, which was the largest monthly jump since January.

Leading the charge was a 2.8 percent rise in energy costs. Prices for gasoline had already been inching higher ahead of the Harvey-related surge late in the month. With gas prices typically falling in August, prices rose 6.3 percent after seasonal adjustment and accounted for half of the headline's gain. Food prices ticked up 0.1 percent as a 0.3 percent increase for food away from home more than offset the 0.2 percent decline at grocery stores. To what will likely be a relief to Fed officials, core inflation rose 0.2 percent in August, which was the largest month gain since February. What's more, the increase has a relatively "high" 0.2 percent, coming in at 0.248 percent before rounding.

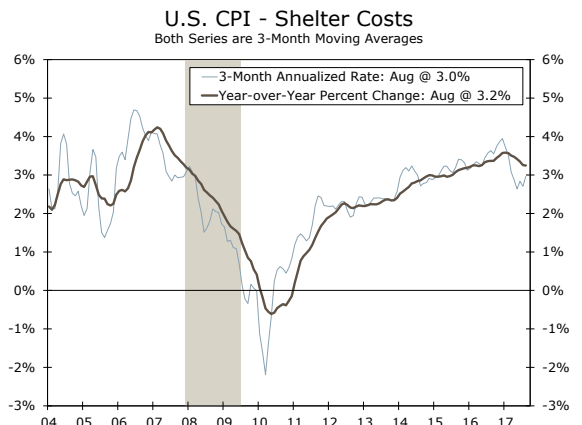
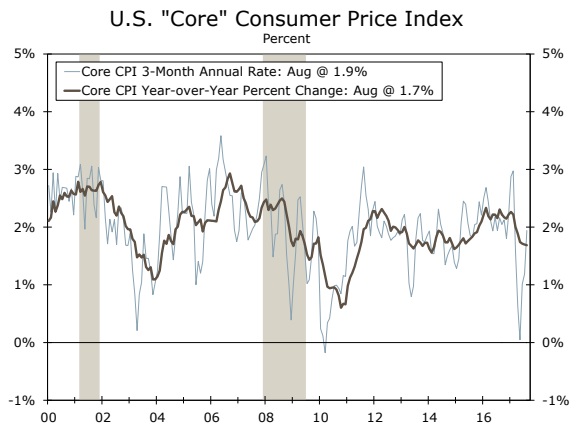
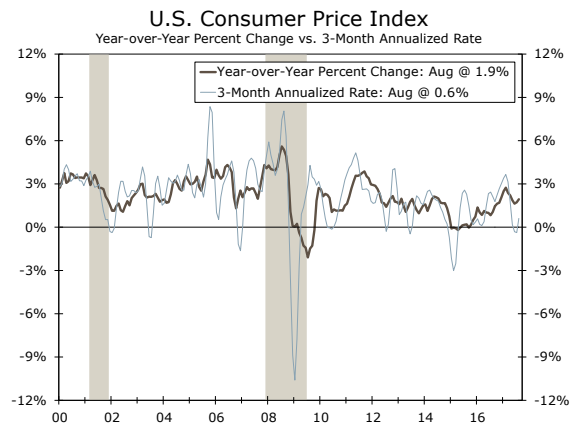
The strength can be traced to a rebound in core services. Shelter prices rose 0.5 percent amid a pickup for primary residences (both rented and owned) as well as a full reversal in last month's 4.9 percent drop in hotel prices. Prices for medical and transportation services also advanced. Core goods prices posted another monthly decline of 0.1 percent amid further weakness in vehicle prices.

On a year-over-year basis, core inflation continues to look rather anemic. Ex-food and energy, prices were up just 1.7 percent over the past 12 months. Following the August gain, however, the recent trend looks stronger; over the past three months, the core index has risen at a 1.9 percent annualized pace.

Fed Will Still Be Cautious Interpreting Inflation's Recent Trend

August's strong gain should help alleviate concerns among Fed members that the slowdown in inflation that began in the spring is set to continue. That said, with some components like gasoline and hotel prices getting a boost late in the month from storm activity, we suspect Fed members will continue to be cautious in interpreting recent movements.

FOMC members have continued to telegraph that they are set to announce the start of balance sheet normalization at next week's meeting. We do not expect the inflation data to get in the way of that plan. What is likely to be affected, however, is the Fed's Summary of Economic Projections. There will be three more readings on CPI and PCE inflation before the FOMC's December meeting, but the soft patch hit in prior months is likely to lead to lower estimates of year-end core inflation. That could be enough for some officials, worried about inflation's persistent shortfall from the Committee's target, to push out their projections for the timing of the next rate hike.



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