

Expected Rise in August CPI Unlikely to Alter Fed Path

The August Consumer Price Index (CPI) was expected to be a bit hot (*and it was*) but there were enough positives within the report to keep policymakers sidelined at next week's FOMC meeting.

Headline CPI rose by +0.6%, matching the median forecast with the largest increase in 14 months. Core CPI (excluding food and energy) rose +0.3%, the first uptick since February and slightly above the +0.2% median forecast.

The energy index was up +5.6% in August after a +0.1% gain in July. Within the energy category, gasoline jumped +10.6%, contributing over half of the headline CPI gain for the month according to the Bureau of Labor Statistics (BLS).

Although the apparent acceleration in price pressure is a bit unnerving, most analysts don't expect the trend to continue. In fact, there were several positive takeaways from the August report. Increases in food prices were mercifully moderate with food at home (groceries) and food away from home (restaurants) up +0.2%. Used vehicle prices fell -1.2% and the cost of medical services rose +0.1%.

The overall shelter index climbed +0.3% in August following +0.4% increases in the previous two months, *although this was mainly due to a sharp drop in lodging prices*. More importantly, the weighted average of owners' equivalent rent and rent of primary residence was up just +0.4% last month, the smallest rise since December 2021, according to Bloomberg Analytics.

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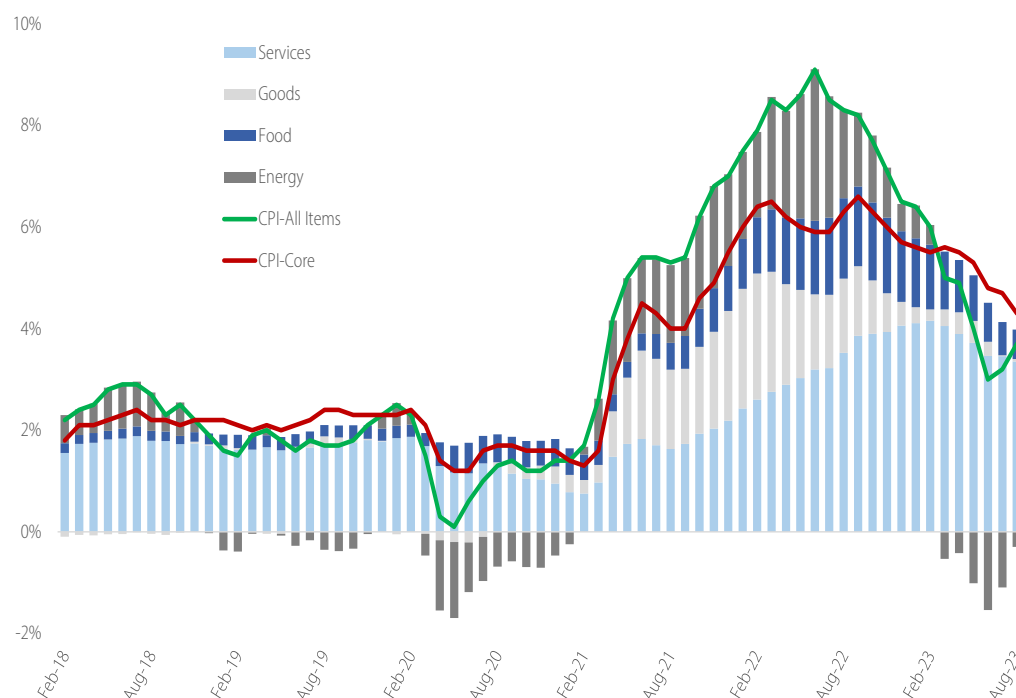
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Consumer Price Index (Year-over-Year Percent Change)



Source: Bureau of Labor Statistics

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Uncomfortable increases were found in transportation and auto insurance. Airfares (which have been wildly volatile) rose for the first time since March. The +4.9% increase followed identical -8.1% declines in the previous two months. Vehicle insurance rose +2.4% in August and is up a stunning +19.1% for the year, the biggest annual gain in nearly five decades.

On a year-over-year basis, overall CPI was up +3.7%, slightly above forecast and higher for the second straight month following 13 months of steady decline. Core consumer inflation retreated from a +4.7% annual pace to +4.3%, exactly matching expectations. Housing costs continue to be the primary driver of core inflation. When housing is excluded, core CPI is up just +2.2% year-over-year.

Bonds sold off early in reaction to the second straight annual increase in headline inflation but have since settled down.

Core CPI is still elevated at +4.3% year-over-year and has proven to be quite sticky. However, the three-month annualized core rate was up a restrained +2.4%.

Nothing in this report should alter the Fed's expected path. The FOMC will likely hold the overnight target rate steady at next week's meeting, and the probability of one more quarter point increase before year end remains around 50%.

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Market Indications as of 9:34 A.M. Central Time

DOW	Up 8 to 34,654 (HIGH: 36,800)
NASDAQ	Up 26 to 13,800 (HIGH: 16,057)
S&P 500	Down -8 to 4,454 (HIGH: 4,797)
1-Yr T-bill	current yield 5.43%; opening yield 5.38%
2-Yr T-note	current yield 5.01%; opening yield 5.02%
3-Yr T-note	current yield 4.68%; opening yield 4.70%
5-Yr T-note	current yield 4.42%; opening yield 4.43%
10-Yr T-note	current yield 4.28%; opening yield 4.28%
30-Yr T-bond	current yield 4.36%; opening yield 4.36%

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