Jobless Claims Surge while CPI is no Worse than Expected

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The headline Consumer Price Index (CPI) came in slightly above forecast for August, but other major CPI data points matched expectations, allowing investors to redirect focus on continued softening of the labor market. Bond yields are lower in early trading as the financial markets brace for next week's Fed meeting and the first rate cut since last December.

The overall CPI rose +0.4% last month, warmer than the +0.2% July reading and slightly above the +0.3% median forecast, while the core CPI gain, as expected, held steady at +0.3%. On a year-over-year basis, overall CPI climbed from +2.7% to +2.9%, while core CPI held steady at +3.1%. *Both matched the median forecast.*

Food prices rose +0.5% following an *unchanged* reading in July. The food at home index climbed +0.6% with all six major grocery food groups increasing. Meat prices were a major contributor, up +2.7% in August, the most in nearly four years, while fruits and vegetables climbed +1.6%, driven largely by a +4.5% rise in tomato prices.

Overall energy costs rose +0.7% last month after falling -1.1% in July. Within the energy category, gasoline prices jumped +1.9% following a -2.2% drop in July. Airfares continue to edge higher, up +5.9% in August following a +4.0% July gain, while lodging costs increased by +2.3%.

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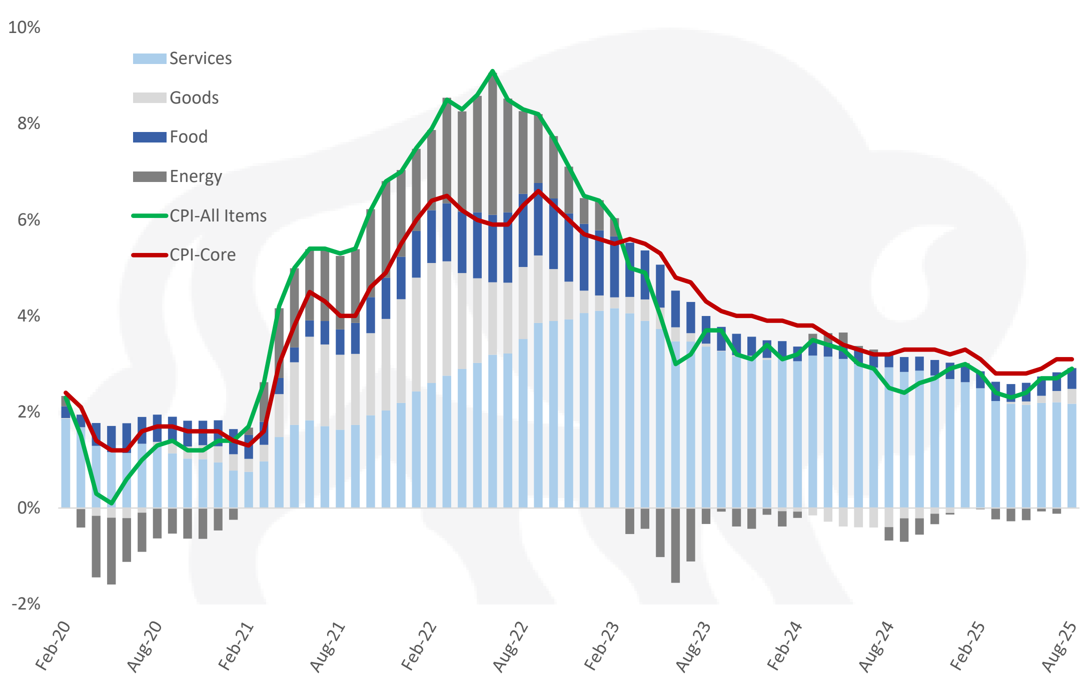
Consumer Price Index (Year-over-Year Percent Change)



Source: Bureau of Labor Statistics

Prices for both new (+0.3%) and used vehicles (+1.0%) accelerated in August. The cost of vehicle maintenance and repair jumped +2.4% last month, while the cost of auto insurance was mercifully unchanged. Interestingly, the tariff impact on goods (so far) has been limited. Core goods ex auto rose by just +0.13%, the coolest since March.

Shelter prices, the largest contributor to consumer inflation, rose +0.4% after a +0.2% gain in July. However, supercore services (which excludes housing) decelerated from +0.48% to +0.33%. The cost for medical care was one of the few bright spots, down -0.2% in August after a +0.7% gain in July.

It's somewhat counterintuitive to view an inflation report as generally favorable when core consumer prices are rising at a +3.1% pace, but when the report is no worse than expected, attention shifts to other indicators. This morning, that attention was focused on an alarming rise in jobless claims. Initial claims for state unemployment benefits jumped +27k during the first week of September to +263k, the highest since October 2021. Although the majority of states logged declines, Texas claims surged.

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Fed officials have made it clear for months that they're primarily concerned with their employment mandate, while the inflation mandate has taken a backseat. FOMC members generally believe tariff-related inflation will be short-lived, allowing them to look past above-target price levels. As a result, the bond market is rallying in early trading, nudging yields lower. Stock prices are also higher this morning on expectations that the Fed could be forced to cut rates more aggressively in the future if the labor market continues to weaken.

The FOMC meets next week and is expected to announce a 25 basis point cut on Wednesday afternoon, the first reduction of the overnight target rate since last December.

Market Indications as of 9:14 A.M. Central Time

DOW	Up 474 to 45,965 (NEW HIGH)
NASDAQ	Up 84 to 21,970 (NEW HIGH)
S&P 500	Up 34 to 6,566 (NEW HIGH)
1-Yr T-bill	current yield 3.62%; opening yield 3.65%
2-Yr T-note	current yield 3.50%; opening yield 3.54%
3-Yr T-note	current yield 3.46%; opening yield 3.50%
5-Yr T-note	current yield 3.56%; opening yield 3.60%
10-Yr T-note	current yield 4.01%; opening yield 4.05%
30-Yr T-bond	current yield 4.66%; opening yield 4.70%