Consumer Price Index August 2024

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Disinflation trend continues, pointing to gradual Fed easing

- The August Consumer Price Index (CPI) report shows headline inflation on an accelerating downward path, though the sticky shelter component kept core CPI inflation from cooling further. Headline CPI rose 0.2% month over month (m/m), in line with expectations, as energy prices fell modestly and food prices rose a mere 0.1%. Core CPI rose 0.3% m/m (0.281%, to be precise) – somewhat above consensus expectations and a modest step up from the sub-0.2% gains in the prior three months.
- Amid strong base effects, headline CPI inflation eased 0.4 percentage points (ppt) to 2.5% year over year (y/y) – the lowest since February 2021. Meanwhile, core CPI inflation remained unchanged at 3.2% in August – the slowest pace since April 2021.
- The slowdown in inflation should gather further momentum in coming months as favorable year-on-year comparisons in September and falling gasoline prices will likely push headline CPI inflation below 2.5% y/y. Meanwhile, core CPI inflation is likely to ease toward 2.9% y/y by year-end.
- Overall, the combination of softer demand for goods and services due to increased pricing sensitivity, reduced markups, moderating wage growth, and moderating rent inflation will continue to provide a healthy disinflationary impulse heading into 2025. We foresee headline and core CPI inflation averaging 2.5% y/y and 3.0% y/y in Q4, respectively.
- Amid the debate over the magnitude of the first Fed rate cut, the August CPI data helped solidify the case for a 25-basis-points (bps) rate cut at the September 18 meeting, rather than a 50bps reduction. While the disinflation trend continues, the less dovish Federal Open Market Committee (FOMC) members will likely look at the bumpiness in services prices as a reason to push for a methodical approach to reducing rates. We continue to expect three 25bps rate cuts before year-end, in September, November and December, and foresee an additional 125bps of rate cuts in 2025.

Looking into the details

Headline CPI rose 0.2% m/m in August, in line with expectations, following a 0.2% rise in July. Energy prices fell 0.8% on a 0.6% decline in prices at the pump and a 0.9% drop in electricity and utility natural gas prices. Food prices rose slightly by 0.1% as grocery prices were flat on the month and helped offset a 0.3% increase in restaurant prices.

Core goods prices fell for a third consecutive month, down 0.2% on the month. The decline in prices was again led by lower prices for used cars, which declined 1% in August. New vehicles prices were unchanged after falling for six consecutive months. Apparel prices saw a modest 0.3% rebound following a notable 0.4% decline in July. Overall, core goods prices are 1.9% lower than a year ago and have been in deflation territory since the start of the year.

Core services prices showed renewed bumpiness and rose 0.4%, a modest step up from 0.3% and 0.1% increases seen in June and July, respectively. Shelter costs, which rose 0.5%, were the main driver of the increase in services prices. Owners' equivalent rent was the main culprit in August, with a 0.5% gain, while rent of primary residence rose 0.4% following a 0.5% increase in July.

The **supercore CPI measure** — core services excluding shelter costs — rose 0.33% following relatively muted gains in the prior three months. Motor vehicle insurance prices, which are a key driver of supercore inflation, saw a moderate 0.6% m/m gain in August. Auto insurance inflation is now in a clear downtrend, though inflation remains elevated at 16.5% y/y. Airfares rebounded markedly following their large July drop, up 3.9% m/m.

Overall, **short-term inflation dynamics** remained very encouraging: on a three-month annualized basis, headline CPI inflation edged back higher by 0.7ppt to 1.1% while core CPI inflation rose 0.5ppt to 2.1%. On a six-month annualized basis, headline CPI inflation eased 0.5ppt to 2.0% and core CPI inflation eased 0.1ppt to 2.7%.

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