August CPI

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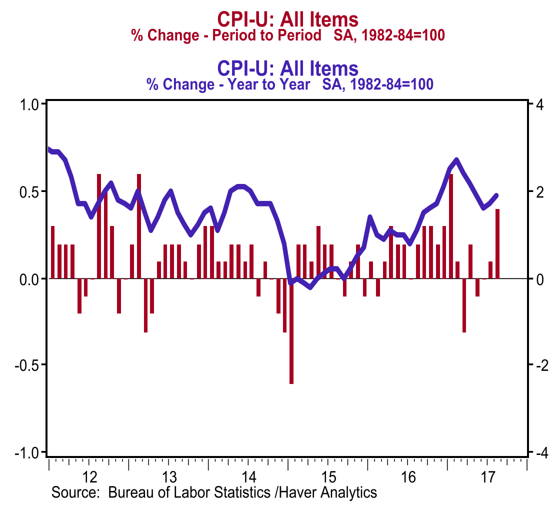
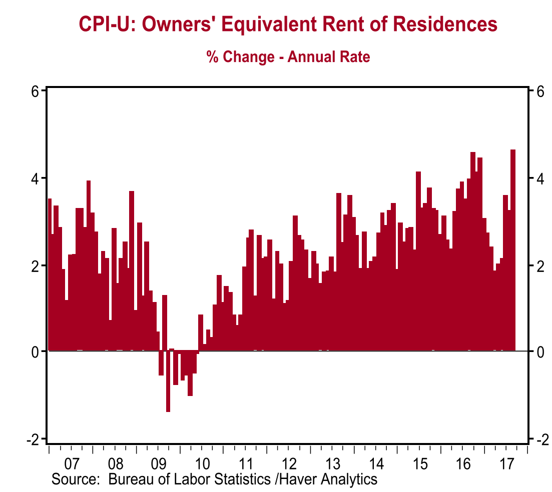
- The Consumer Price Index (CPI) rose 0.4% in August, coming in above the consensus expected increase of 0.3%. The CPI is up 1.9% from a year ago.
- "Cash" inflation (which excludes the government's estimate of what homeowners would charge themselves for rent) rose 0.4% in August and is up 1.5% in the past year.
- Energy prices rose 2.8% in August, while food prices rose 0.1%. The "core" CPI, which excludes food and energy, increased 0.2% in August, matching consensus expectations. Core prices are up 1.7% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – declined 0.3% in August but are up 0.6% in the past year. Real average weekly earnings are up 0.9% in the past year.





Implications: Consumer price inflation in August was the hottest for any month since January, with prices rising 0.4%. But, between Hurricanes Harvey and Irma, we're going to have to wait a couple of months to figure out whether there has been a shift in the underlying trend. The increase in prices in August was led by gasoline and housing costs. We're certain to see more upward pressure from gas prices in September as Harvey hit late in August, and so only affected prices for a small part of the month. In the past year, consumer prices are up 1.9%. This is below the Federal Reserve's 2% target, and so some are saying the Fed should hold off on raising rates in December. But consumer prices were up only 0.2% in the year ending in August 2015 and up 1.1% in the year ending August 2016, so seeing through temporary fluctuations, we think inflation has remained in a rising trend. "Core" consumer prices, which exclude food and energy, rose 0.2% in August and are up 1.7% from a year ago. A closer look at core prices shows a handful of goods that are keeping that measure below the 2% inflation target. Cellphone service prices have declined an unusually large 13.2% in the past year, while major household appliances are down 3.9% and vehicle costs are falling. For the consumer, these falling prices - which are the result of technological improvements and competition – plus rising wages mean increased spending power on all other goods. We still expect inflation to trend towards 2%+ in the medium term, and don't think the gains to consumers from falling prices in select areas are reason for concern or a justification for the Fed to hold off on a steady path of rising rates. A week ago, the futures market put the odds of a December rate hike at only 22%; now those odds are up to 47%. We think they should be more like 65%. The most disappointing news in today's report is that real average hourly earnings declined 0.3% in August. However, these earnings are up 0.6% over the past year. On the jobs front, initial claims for unemployment benefits declined 14,000 last week to 284,000. The recovery from Harvey should keep exerting downward pressure on claims over the next couple of weeks. Unfortunately, Irma will likely exert even more powerful upward pressure in the near term, so next week's report in claims should rise to about 300,000. After that, claims should drop over the following few weeks back to about 240,000, where it was before the hurricanes. In the meantime, continuing claims for unemployment benefits fell 7,000 to 1.94 million. Plugging all this data into our models suggests payroll gains will be muted for September, but then bounce back in the fourth quarter of the year.

CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	Aug-17	Jul-17	Jun-17	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.4%**	0.1%	0.0%	2.0%	0.5%	1.9%
Ex Food & Energy	**0.2%**	0.1%	0.1%	1.9%	1.0%	1.7%
Ex Energy	**0.2%**	0.1%	0.1%	1.8%	1.1%	1.6%
Energy	**2.8%**	-0.1%	-1.6%	4.6%	-7.2%	6.4%
Food	**0.1%**	0.2%	0.0%	0.7%	1.8%	1.1%
Housing	**0.4%**	0.1%	0.1%	2.3%	2.4%	2.9%
Owners Equivalent Rent	**0.3%**	0.3%	0.3%	3.6%	3.0%	3.3%
New Vehicles	**0.0%**	-0.5%	-0.3%	-3.3%	-2.9%	-0.7%
Medical Care	**0.1%**	0.4%	0.4%	3.8%	1.8%	1.8%
Services (Excluding Energy Services)	**0.4%**	0.2%	0.2%	3.0%	2.0%	2.5%
Real Average Hourly Earnings	**-0.3%**	0.2%	0.3%	0.7%	1.7%	0.6%

Source: U.S. Department of Labor