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# August CPI

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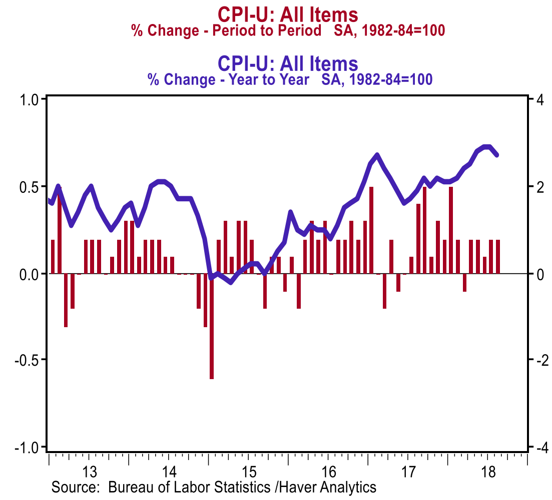
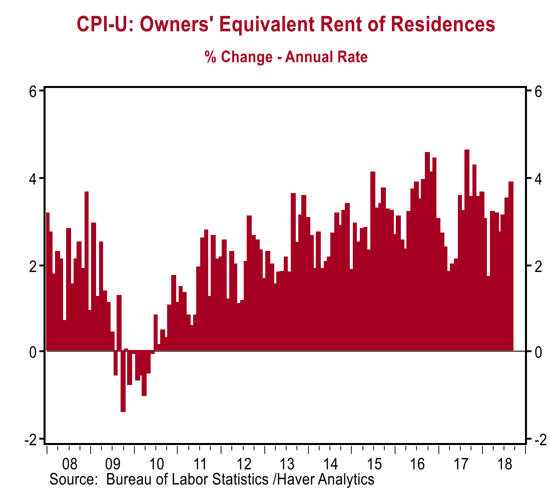
- The Consumer Price Index (CPI) rose 0.2% in August, coming in below the consensus expected increase of 0.3%. The CPI is up 2.7% from a year ago.
- Energy prices increased 1.9% in August, while food prices rose 0.1%. The "core" CPI, which excludes food and energy, increased 0.1% in August, below the consensus expected increase of 0.2%. Core prices are up 2.2% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.1% in August and are up 0.2% in the past year. Real average weekly earnings are up 0.5% in the past year.




**Implications:** Consumer prices continue to march higher, rising 0.2% in August and, at 2.7%, have now shown a 12-month increase of 2% or more for twelve consecutive months. To put all of this in a longer-term perspective, consumer prices increased 1.9% for the twelve-months ending August 2017, 1.1% for the twelve-months ending August 2016, and 0.2% for the twelve-months ending August 2015. Put simply, after five years of running below the Fed's inflation target, the question has shifted from "will the Fed wait on raising rates?" to "can the Fed really wait on raising rates?" Runaway inflation this is not, but with the federal funds rate well below the pace of nominal GDP growth, the odds of higher inflation should be enough to keep the Fed on track for slow-but steady hikes through at least the end of 2019 (think two more this year, and four next year). Energy prices led the way higher in August, rising 1.9% on the back of higher gasoline prices. "Core" consumer prices – which exclude both food and energy costs – rose a tepid 0.1% in August but are up 2.2% in the past year. Taking a deeper dig into today's report shows the 0.1% increase in core prices was once again led by owners' equivalent rent (the amount an owner would need to pay in order to rent their home on the open market). Meanwhile, a 1.6% drop in apparel prices – the steepest decline for any month since 1949 – as well as declines in prices for medical services and commodities held down the overall increase in core prices. On the wages front, real average hourly earnings rose 0.1% in August and are up 0.2% in the past year. These inflation-adjusted hourly earnings have been stubbornly slow to move, however this earnings data does not include irregular bonuses – like the ones paid by companies after the tax cut or to attract new hires, and also don't include the value of benefits. It's an imperfect measure, to say the least, but that said we still expect a visible pickup in wage pressures in the year ahead. In employment news this morning, initial jobless claims fell 1,000 last week to 204,000, the lowest reading since December 1969. Meanwhile, continuing claims fell 15,000 to 1.70 million, also marking a multi-decade low. Hurricane Florence will likely push these numbers higher in the weeks ahead, among the many data readings that may be distorted in coming months, but remember that shifts in activity due to storms are temporary, and we have little doubt the Kevlar economy will continue higher in the quarters to come. To those in the path of the storm, stay safe, our thoughts and prayers are with you.

| **CPI - U**<br>*All Data Seasonally Adjusted Except for Yr to Yr* | Aug-18 | Jul-18 | Jun-18 | 3-mo % Ch. annualized | 6-mo % Ch. annualized | Yr to Yr % Change |
|---|---|---|---|---|---|---|
| ***Consumer Price Index*** | **0.2%** | 0.2% | 0.1% | 2.1% | 1.8% | 2.7% |
| ***Ex Food & Energy*** | **0.1%** | 0.2% | 0.2% | 2.0% | 1.9% | 2.2% |
| ***Ex Energy*** | **0.1%** | 0.2% | 0.2% | 1.9% | 1.8% | 2.1% |
| ***Energy*** | **1.9%** | -0.5% | -0.3% | 4.4% | 1.1% | 10.2% |
| ***Food*** | **0.1%** | 0.1% | 0.2% | 1.6% | 1.7% | 1.4% |
| ***Housing*** | **0.3%** | 0.2% | 0.0% | 2.1% | 2.7% | 2.9% |
| ***Owners Equivalent Rent*** | **0.3%** | 0.3% | 0.3% | 3.3% | 3.5% | 3.3% |
| ***New Vehicles*** | **0.0%** | 0.3% | 0.4% | 3.1% | 1.3% | 0.3% |
| ***Medical Care*** | **-0.2%** | -0.2% | 0.4% | 0.0% | 1.4% | 1.5% |
| ***Services (Excluding Energy Services)*** | **0.2%** | 0.3% | 0.2% | 2.9% | 2.9% | 3.0% |
| ***Real Average Hourly Earnings*** | **0.1%** | 0.1% | 0.1% | 1.1% | 1.3% | 0.2% |

*Source: U.S. Department of Labor*