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August CPI

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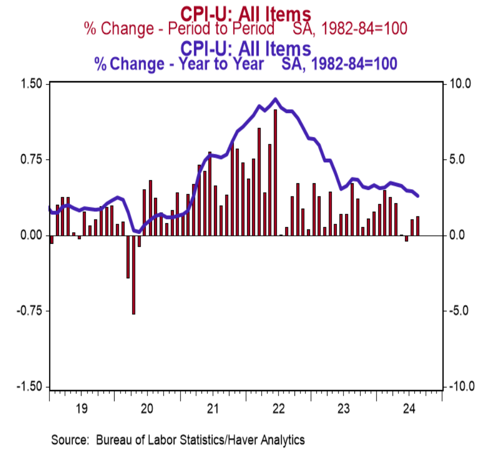
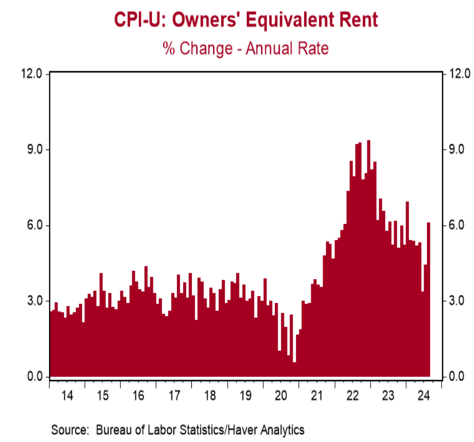
- The Consumer Price Index (CPI) rose 0.2% in August, matching consensus expectations. The CPI is up 2.5% from a year ago.
- Food prices rose 0.1% in August, while energy prices declined 0.8%. The "core" CPI, which excludes food and energy, rose 0.3% in August, above the consensus expected +0.2%. Core prices are up 3.2% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.2% in August and are up 1.3% in the past year. Real average weekly earnings are up 0.9% in the past year.





Implications: Headline inflation matched expectations in August, likely sealing the deal for the start of rate cuts at the Fed's meetings next week. After considerable progress against inflation from mid-2022 to mid-2023, many believed the end of "temporary" pandemic inflation problems was in sight. But then inflation pressures reignited in the first quarter of 2024, casting doubt on the Fed's ability to cut rates. Now it appears that inflation has resumed its downward trend; consumer prices are up 2.5% in the last year – the lowest level since the inflation scare began in early 2021 – and have been slowing lately, up at 1.1% and 2.0% annualized rates in the last three and six months, respectively. We have said for some time that easing in inflation will come should the Fed have the resolve to let the lagged effects of tighter monetary policy do its work. After surging in 2020-21, the M2 measure of the money supply peaked in early 2022. Although it's been rising gradually since October, it's still down 3.1% from the peak in April 2022. The lagged impact of this tighter monetary policy appears to finally be making its way into lower inflation. However, even as the headline inflation picture is improving, it doesn't look as rosy when digging below the surface. First, some of this improvement has come from declining energy prices, which fell 0.8% in August and are down 4.0% in the last year. Excluding energy, consumer prices are still up 3.0% in the last year. Stripping out energy and its often-volatile counterpart – food prices (+0.1% for the month) – "core" prices came in hotter than expected, rising 0.3% while the year-ago comparison remained unchanged at 3.2%. Meanwhile, a subset category of prices the Fed has told investors to watch closely and is a useful gauge of inflation in the service sector – known as the "Supercore" – which excludes food, energy, other goods, and housing rents, rose 0.3% in August. These prices are up 4.5% in the last year, worse than the 4.0% reading in the year ending in August 2023. While the market consensus is for rate cuts to begin next week, the big issue is by how much. These data suggest a more gradual path toward lowering rates. For now, our base case is that the Fed will cut rates by a quarter percentage point at each of the three remaining meetings this year and continue that pattern well into 2025. Although inflation risks are dissipating, we are not at the finish line yet. No matter which way you cut it, inflation is still running above the Fed's 2.0% target (now for the 42nd consecutive month) and could re-accelerate should the Fed overreact and ease policy too much.

CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	Aug-24	Jul-24	Jun-24	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.2%**	0.2%	-0.1%	1.1%	2.0%	2.5%
Ex Food & Energy	**0.3%**	0.2%	0.1%	2.1%	2.7%	3.2%
Ex Energy	**0.3%**	0.2%	0.1%	2.1%	2.5%	3.0%
Energy	**-0.8%**	0.0%	-2.0%	-10.7%	-5.1%	-4.0%
Food	**0.1%**	0.2%	0.2%	2.1%	1.6%	2.1%
Housing	**0.3%**	0.4%	0.2%	3.5%	3.6%	4.4%
Owners Equivalent Rent	**0.5%**	0.4%	0.3%	4.6%	5.0%	5.4%
New Vehicles	**0.0%**	-0.2%	-0.2%	-1.2%	-2.8%	-1.2%
Medical Care	**-0.1%**	-0.2%	0.2%	-0.8%	2.5%	3.0%
Services (Excluding Energy Services)	**0.4%**	0.3%	0.1%	3.4%	4.1%	4.9%
Real Average Hourly Earnings	**0.2%**	0.1%	0.4%	2.5%	1.8%	1.3%

Source: U.S. Department of Labor