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August CPI

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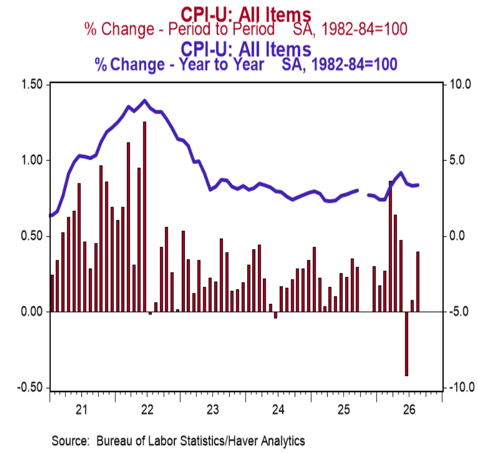
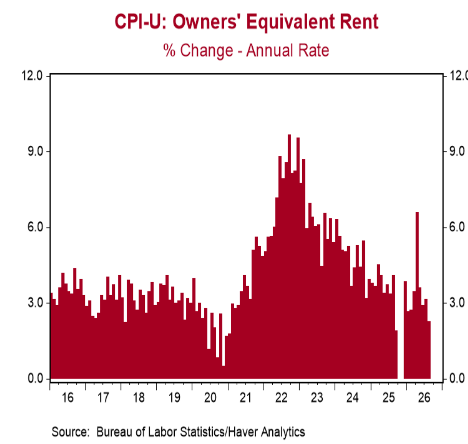
- The Consumer Price Index (CPI) rose 0.4% in August, matching consensus expectations. The CPI is up 3.4% from a year ago.
- Energy prices increased 2.1% in August, while food prices rose 0.1%. The "core" CPI, which excludes food and energy, rose 0.3% in August, above the consensus expected +0.2%. Core prices are up 2.4% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – declined 0.1% in August and are down 0.3% in the past year. Real average weekly earnings are up 0.3% in the past year.





Implications: The Fed will likely hike short-term rates at the meeting next week. Consumer prices matched expectations by rising 0.4% in August, leaving the year-ago comparison unchanged at 3.4%. "Core" CPI, which excludes food and energy, surpassed expectations and rose 0.3%, with the year ago comparison falling to 2.4%. Earlier this week, we said that while the strong August jobs report had shifted the odds toward a rate hike, Chairman Warsh may still have enough ammunition to hold rates steady if this week's inflation data came in more benign than the consensus expected. That did not happen. Although we think the Fed should be focusing on the money supply, not temporary energy price shocks, when deciding where interest rates should go – which suggests they should hold rates steady – August marks the 65th consecutive month that both headline and core inflation were above the Federal Reserve's official 2.0% target. Combined with the strong labor report this month, we think that will ultimately be enough to push Warsh and the FOMC committee toward their first rate hike in three years. Looking at the details of the report, energy prices led the index higher, rising 2.1% in August after falling -1.5% and -5.7% in the two prior months, and is now up 16.3% versus a year ago. Core CPI, which excludes food (+0.1% in August) and energy, rose 0.3%, the biggest increase in four months. Housing rents (both those for actual tenants and the imputed rental value of owner-occupied homes) have been the primary contributor to core inflation over the last few years but have been trending toward slower gains in 2026, rising a modest 0.2% in August. That was surpassed by a 5.9% jump in prices for wireless telephone services despite its much smaller weighting, while airline fares (+2.7% in August) continue to climb higher, up 23.4% in the past year. Prices for hotels (+2.7%), used vehicles (+0.4%), and computers, peripherals & smart-home assistants (+3.8%) also made notable contributions. That was partially offset by declines across categories such as motor vehicle insurance (-0.8%), medical care (-0.2%), and financial services (-1.3%). The worst news in today's report was that wages lost ground in the battle against inflation, as "real," inflation-adjusted hourly earnings declined 0.1%, continuing a trend that has left them down 0.3% over the past year. The bottom line is that inflation remains elevated.

CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	**Aug-26**	**Jul-26**	**Jun-26**	**3-mo % Ch. annualized**	**6-mo % Ch. annualized**	**Yr to Yr % Change**
Consumer Price Index	**0.4%**	0.1%	-0.4%	0.2%	4.1%	3.4%
Ex Food & Energy	**0.3%**	0.2%	0.0%	2.0%	2.6%	2.4%
Ex Energy	**0.3%**	0.2%	0.0%	1.9%	2.5%	2.5%
Energy	**2.1%**	-1.5%	-5.7%	-19.1%	28.6%	16.3%
Food	**0.1%**	0.1%	0.2%	1.6%	2.1%	2.7%
Housing	**0.2%**	0.1%	0.0%	1.7%	3.4%	3.1%
Owners Equivalent Rent	**0.2%**	0.3%	0.2%	2.8%	3.7%	3.1%
New Vehicles	**0.3%**	0.1%	0.0%	1.2%	0.0%	0.6%
Medical Care	**-0.2%**	0.4%	-0.1%	-0.1%	0.1%	1.6%
Services (Excluding Energy Services)	**0.3%**	0.2%	0.0%	2.4%	3.3%	3.0%
Real Average Hourly Earnings	**-0.1%**	0.1%	0.6%	2.5%	-1.4%	-0.3%

Source: Bureau of Labor Statistics