

Economics

ECONOMIC FLASH!

economics.cibccm.com

September 11, 2024

US CPI: OER you serious right now?

by **Ali Jaffery** ali.jaffery@cibc.com

Consumer Price Index (monthly change, %)	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Aug NSA YoY%
All items	0.2	0.2	-0.1	0.0	0.3	0.4	2.5
Ex-food/energy	0.3	0.2	0.1	0.2	0.3	0.4	3.2
• Ex-food	0.2	0.2	-0.1	0.0	0.4	0.4	2.6
• Ex-energy	0.3	0.2	0.1	0.2	0.3	0.3	3.0
Energy	-0.8	0.0	-2.0	-2.0	1.1	1.1	-4.0
Services	0.3	0.3	0.1	0.2	0.4	0.5	4.8
Housing	0.3	0.4	0.2	0.3	0.2	0.4	4.4
Fuels & util.	-0.7	0.1	-0.1	-0.1	-0.3	0.5	3.0
Food/beverages	0.1	0.2	0.2	0.1	0.0	0.1	2.0
• Food	0.1	0.2	0.2	0.1	0.0	0.1	2.1
Apparel	0.3	-0.4	0.1	-0.3	1.2	0.7	0.3
Transportation	0.1	-0.1	-1.3	-1.1	0.7	0.8	-1.0
Medical care	-0.1	-0.2	0.2	0.5	0.4	0.5	3.0
Recreation	-0.1	0.1	0.1	-0.2	0.2	-0.1	1.6
Education, comm.	0.1	0.2	-0.1	0.0	0.2	0.0	1.0
Other good, serv.	0.2	0.2	0.6	0.2	0.4	0.4	3.9
Commodities	-0.1	-0.1	-0.4	-0.4	0.2	0.1	-1.2

Source: Haver Analytics.

- The August inflation report showed inflation core surprise on the upside, due to an acceleration in service prices. Core CPI prices rose 0.28% m/m in the month, above consensus expectations of a 0.2% rise. Three-month annualized core CPI, however, still sits at a very cool 2.1% pace. Headline inflation came in at 0.19% m/m in July, matching forecasters predictions of a 0.2% gain. In year-over-year terms, headline inflation came down four ticks on favorable base-year effects to 2.5%, while core was unchanged at 3.2%. Core goods prices declined yet again, aided by further rebalancing in the used car market. Service prices strengthened due to a pick up in shelter and transportation service categories. Shelter inflation has proved more difficult to tame, and today's report is more evidence of that, with Owner's Equivalent Rent (OER) picking up for the second consecutive month. While today was not the best report for the Fed, inflation momentum is still in very good shape and the progress seen over the past year makes us confident that inflation is headed toward target even if the last mile for shelter disinflation is somewhat bumpy. The Fed's focus now is on whether the jobs market is "normalizing" or "deteriorating", and that means inflation reports are taking a back seat to labor market data.
- We estimate that today's CPI reading will translate into a 0.2% core PCE, so still within the range of target. Shelter has a lower weight in PCE with housing services accounting for 18% of the core PCE basket as compared to 46% in

CPI. Healthcare is actually the largest service component in PCE and that came in weak in today's report at -0.1% m/m, although PCE healthcare prices are broader than the in-pocket expenditures covered in the CPI medical services. As a result, PCE's healthcare prices are also informed by PPI data which we will see tomorrow.

- Today's report is telling us that the increased progress we thought we saw on shelter disinflation over the summer could actually be a mirage. Shelter prices rose to 0.5% m/m in July, the fastest pace seen since January. A 0.5% rise in OER was the main cause with rents coming down to 0.4% m/m. On a six-month annualized basis, there is more visible progress with rents at 4.6% and OER at 5.0%, but that is agonizingly slow and far above the implied pace from measures such as the Cleveland Fed's All Tenant Regressed Index, which now has an over 1%-point gap with rental CPI inflation, the largest gap observed over the history of the series. Perhaps it is the role of single family houses, or refinements in the panel of surveyed houses that mean the feed-through of market rents takes longer.
- Non-housing services, rose to 0.3% in August from 0.2% the month prior, largely due to an increase in airfares after five consecutive months of decline. Motor vehicle insurance premiums also moderated in the month, consistent with the improving profitability of auto insurers. In time, that could switch to becoming a material drag. The Fed will view the modest increase in non-housing services as a blip.
- Core goods contracted by 0.2% in the month. There were broad-based declines across categories. Household furnishings, IT-related products, recreational goods, medical goods and of course, used cars dropped again. Stripping out used cars, other core goods prices declined by 0.1% for the second consecutive month. The durable goods market remains in excess supply.

Implications & actions

Re: Economic forecast — The upside surprise in core inflation today likely won't be repeated in the Fed's preferred inflation gauge, core PCE, later this month, which we expect will still come in at 0.2% m/m. No barriers to the easing cycle beginning in September from today's report.

Re: Markets — Bond yields rose initially and have since retreated, while the broad dollar has sustained a modest increase.

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Canadian Investment Regulatory Organization, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority, and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

© 2024 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.

CIBC Capital Markets – PO Box 500, 161 Bay Street, Brookfield Place, Toronto, Canada M5J 2S8 – Bloomberg @ CIBC