

# Economics

## ECONOMIC FLASH!

[economics.cibccm.com](http://economics.cibccm.com)

September 13, 2023

### US CPI: Somewhere between a boil and a gentle simmer

by **Ali Jaffery** [ali.jaffery@cibc.com](mailto:ali.jaffery@cibc.com)

Consumer Price Index (monthly change, %)	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Jul NSA YoY%
All items	0.6	0.2	0.2	0.1	0.4	0.1	3.7
Ex-food/energy	0.3	0.2	0.2	0.4	0.4	0.4	4.3
• Ex-food	0.7	0.2	0.2	0.1	0.4	0.1	3.6
• Ex-energy	0.3	0.2	0.1	0.4	0.4	0.3	4.3
Energy	5.6	0.1	0.6	-3.6	0.6	-3.5	-3.6
Services	0.4	0.3	0.3	0.3	0.2	0.3	5.4
Housing	0.3	0.4	0.3	0.2	0.2	0.3	5.7
Fuels & util.	0.6	0.2	0.3	-1.1	-1.1	-1.7	-1.2
Food/beverages	0.2	0.2	0.1	0.2	0.1	0	4.2
• Food	0.2	0.2	0.1	0.2	0	0	4.3
Apparel	0.2	0	0.3	0.3	0.3	0.3	3.1
Transportation	2.6	-0.1	0.2	-0.2	1.2	-0.5	1.4
Medical care	0.2	-0.2	0	0.1	0	-0.3	-1.0
Recreation	-0.2	0.1	0.1	-0.1	0.5	0.1	3.5
Education, comm.	0	0	-0.2	-0.2	0	0.2	1.0
Other good, serv.	0.4	0.1	0.2	0.5	0.9	0.5	5.8
Commodities	1.0	-0.1	0.1	-0.2	0.6	-0.3	1.0

Source: Haver Analytics.

- Somewhere between a boil and a gentle simmer, US CPI inflation came above expectations in August. Core prices rose by 0.3% m/m in August, slightly above consensus expectations of 0.2% m/m. In year-over-year terms, core inflation edged down to 4.3% from 4.7% the month prior due to favorable base effects. Headline prices rose 0.6% m/m and jumped to 3.7% in year-over-year terms reflecting the strength in gasoline prices in the month. The Fed's preferred measure of prices tied to underlying demand, non-housing services, rose by 0.4% m/m from 0.2% in July. Part of that was driven by some volatility in the underlying data today, with jumps in vehicle insurance and airfares, but nonetheless, it does keep alive the risk that the Fed might hike again in the fall. However, the broader data continue to suggest that the US economy is slowing and shelter prices continued their downward path in today's release. Even if the path is a bit bumpy, we expect the Fed will hold for the rest of the cycle.
- Service inflation came in at 0.3% m/m, down from 0.4% in July and its average pace since March. Both Owner's Equivalent Rent (OER) and the rent inflation slowed in the month. This trend should continue as newer rental agreements are incorporated into CPI. Recent research by the San Francisco Fed forecasts shelter inflation to meaningfully decelerate and turn negative by mid-2024. This should anchor a downward trend in service inflation and core inflation more broadly.

- There were gains across the core services ex. shelter group but the monthly increase was overwhelmingly driven by the volatile transportation services category which rose 2.0% m/m. Airfares increased almost 5% in the month after four consecutive months of weakness. This likely reflects the gain in oil prices in recent months and suggests there could be some more upside ahead as the recent rise in oil prices is passed through. A tight labour market is still likely putting upward pressure on core services ex. shelter as a whole.
  - Core goods prices continued to show weakness, with a negative monthly reading for the third consecutive month, consistent with supply chain improvements and the impact of tighter monetary policy. This was driven by weakness in Used car prices, which fell by 1.3% m/m, also its third consecutive monthly decline. Core goods excluding used cars was about flat, which is also its average pace since April of this year. Goods demand has been solid in the quarter but prices have remained weak and with the impact of monetary policy restraint gradually feeding through into the economy, there is likely some downside risk in this area.
  - Energy prices jumped 5.6% in the month, led by an almost 11% gain in gasoline prices. While higher oil prices continue to pose an upside risk to headline inflation, it may be less of a risk to core inflation given the macro context and possibly somewhat deflationary. With weak income growth, consumers may not be able to spend as much on other categories causing further demand weakness. Food prices rose in the month by 0.2%, the same pace as in July.
- Implications & actions

## Implications & actions

**Re: Economic forecast** — Today's upside surprise on inflation ends two consecutive months of inflation at a pace broadly consistent with the Fed's target of 2%. However, shelter prices and core goods continued their recent trends and the increase core services ex. shelter likely reflected some volatility, although a tight labour market is also likely continuing to play a role. Today's data does keep the risk alive for a fall hike but we believe the broader data continue to show that the US economy is cooling. We expect the Fed to hold rates from here on out.

**Re: Markets** — Bond yields and the greenback shrugged off today's data. Yields rose but have fallen back and the broad dollar has stayed mostly neutral through the morning session so far.

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada, 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.

© 2023 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