

Economics

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US CPI (Aug): Not good, but not enough to sway this FOMC to hold

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| Consumer Price Index (monthly change, %) | Aug 2025 | July 2025 | June 2025 | May 2025 | Apr 2025 | Mar 2025 | Aug NSA YoY% |
|---------------------------------------------|-------------|--------------|--------------|-------------|-------------|-------------|-----------------|
| All items | 0.4 | 0.2 | 0.3 | 0.1 | 0.2 | -0.1 | 2.9 |
| Ex-food/energy | 0.3 | 0.3 | 0.2 | 0.1 | 0.2 | 0.1 | 3.1 |
| • Ex-food | 0.4 | 0.2 | 0.3 | 0.0 | 0.3 | -0.1 | 2.9 |
| • Ex-energy | 0.4 | 0.3 | 0.2 | 0.2 | 0.2 | 0.1 | 3.1 |
| Energy | 0.7 | -1.1 | 0.9 | -1.0 | 0.7 | -2.4 | 0.2 |
| Services | 0.3 | 0.3 | 0.3 | 0.2 | 0.4 | 0.2 | 3.8 |
| Housing | 0.4 | 0.2 | 0.3 | 0.3 | 0.5 | 0.3 | 4.0 |
| Fuels & util. | -0.1 | -0.1 | 0.8 | 0.4 | 1.1 | 1.1 | 6.9 |
| Food/beverages | 0.5 | 0.0 | 0.3 | 0.3 | -0.1 | 0.4 | 3.1 |
| • Food | 0.5 | 0.0 | 0.3 | 0.3 | -0.1 | 0.4 | 3.2 |
| Apparel | 0.5 | 0.1 | 0.4 | -0.4 | -0.2 | 0.4 | 0.2 |
| Transportation | 0.9 | 0.0 | 0.1 | -0.7 | 0.0 | -1.8 | 0.9 |
| Medical care | -0.2 | 0.7 | 0.5 | 0.3 | 0.5 | 0.2 | 3.4 |
| Recreation | -0.1 | 0.4 | 0.4 | 0.1 | 0.0 | -0.1 | 2.3 |
| Education, comm. | 0.0 | 0.0 | 0.1 | 0.1 | -0.1 | 0.3 | 0.3 |
| Other good, serv. | 0.2 | 0.4 | 0.4 | 0.5 | 0.1 | 1.0 | 3.9 |
| Commodities | 0.5 | 0.0 | 0.3 | -0.1 | 0.0 | -0.4 | 1.3 |

Source: Haver Analytics.

- No surprises on core price pressures in August. Core CPI came in at a 0.346% m/m pace, just matching consensus expectations. Headline prices rose hotter than expected, coming in at 0.4% (vs. 0.3% expected). On an annual basis, core stayed unchanged at 3.1% while headline rose two ticks to 2.9%, both as expected. Tariff pass-through picked up in the month, with core goods prices rising by their fastest pace since broad-based tariffs were imposed. We saw the first noticeable rise in new car prices in today's report, suggesting tariff-impacts could be broadening to larger-ticket items although car prices still look tame. However, services inflation edged down on softer medical services prices after a sharp jump last month. There wasn't much in today's report that will sway this FOMC not to cut in September. The Fed is pretty far away from it's price stability goal with underlying inflation looking steady around 3%, but that increasingly has to do with tariff-induced price rises. Of course, the bigger story is the job market is in need of support, and an ailing job market implies more muted demand-side price pressures ahead. The rise in initial claims numbers today (263K vs. 235K expected) will likely strengthen that view. With the fed funds rate still well above the range of neutral estimates, a couple of cuts would still keep policy in somewhat restrictive territory to guard against persistent inflation risks.

- Core goods prices rose by 0.3% in the month, but excluding used cars and new vehicles, goods prices rose 0.1%. The cumulative price rise in core goods ex cars has been about 1.3% since March whereas used and new car prices over that period have actually fallen slightly, by 0.3%. Future car price increases are likely, but some carmakers have given guidance about more modest price increases this year.
- Services prices moved down slightly in month largely due to a big dip in medical services (-0.1% after +0.8% in July). Shelter prices picked up as hotel prices rose for the first time since February, as foreign tourism has slowed down. Rental inflation has been on a firming trend since May and that showed up also in higher OER prices. That's consistent with market-based rent measures and house price measures rising a bit in 2024 or late-2024, but both forward-looking measures have come off more recently. As has the BLS' tenant indices.
- But taking a step back here, the overall inflation picture in the US is still pretty distant from target, something the Fed will be ok with for now as they worry about the prospect of dimming economy and job market that is starting to show slack. If we lived in a parallel universe where there wasn't a strong bias wasn't to bring rates lower, we're not so sure the Fed would be eager to cut and the market would take a more gradual view of easing. True, tariffs could temporarily raise inflation, but the Fed didn't succeed in bring inflation to target in the first place and inflation could be stuck at 3% for some time.

Implications & actions

Re: Economic forecast — We expect the Fed to cut in back-to-back meetings in September and October, and then pause to assess the state of the economy before resume with two more rate cuts in the first half of next year.

Re: Markets — Bond yields and the dollar dropped after the report, but that was likely also influenced by the initial claims numbers. Markets have priced in three straight cuts to end the year.

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