

Making Sense

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August's Consumer Price Index:

Increased Gas Prices Help Push Inflation Higher

In Brief:

Takeaways from July's consumer price index:

- Headline inflation (year-over-year) was 3.7% (up from 3.2% in July)
- Core inflation (excludes food and energy) was 4.3% year-over-year, down from 4.7% last month

What does it mean for you?

- Consumer inflation remains stubbornly high
- Today's report keeps pressure on the Fed to keep monetary policy tighter for longer

What to watch:

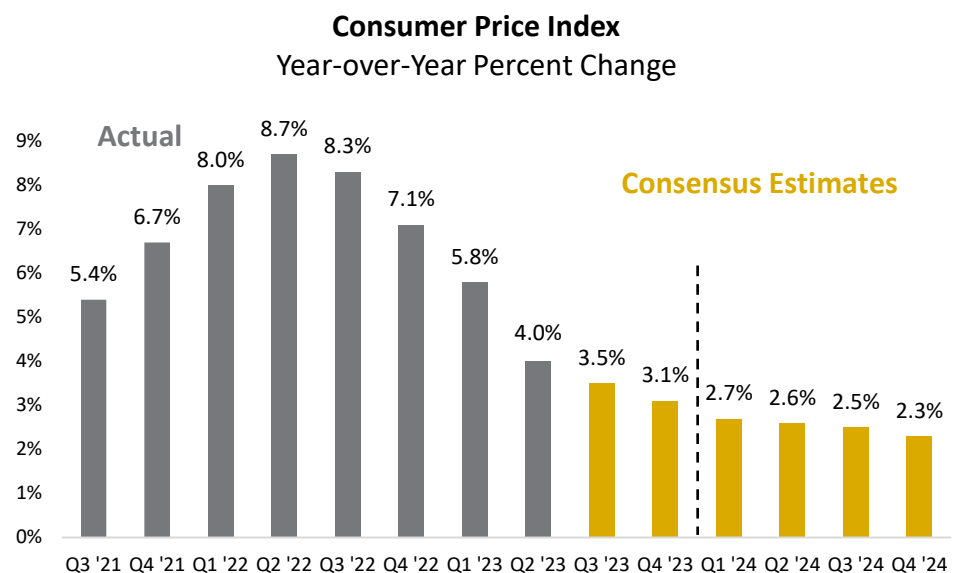
- Watch the Fed's next rate decision on September 20th, which will also include the Fed's summary of economic projections
- The Fed will continue to monitor monthly employment data for signs of loosening in the labor market
- First Citizens Wealth Management will provide an in depth look at markets & the economy on the next [Making Sense Market Update](#). Sign up to have it sent to your inbox.

August's consumer price index (CPI) rose 3.7% year-over-year, the second consecutive increase in the annual inflation rate. On a month-over-month basis, inflation rose 0.6%, in line with consensus, and above the more muted 0.2% increase of the prior two months. An eye-popping 10.6% monthly increase in gasoline prices was a significant driver of overall inflation. **Experts expect the pace of inflation to continue to moderate (Figure 1), but further increases in energy prices could spoil the party.**

For those hoping for easing in Federal Reserve monetary policy, the rise in core CPI, which excludes the impact of food and energy, might be more concerning than the bounce in overall inflation. Core CPI rose 0.3% versus July—a faster rate of inflation than the prior month and above consensus expectations of 0.2%. Core CPI rose 4.3% year-over-year, which represents the sixth consecutive month in which it has outpaced headline. The Fed is hyper-focused on underlying inflation. **The Fed is likely to keep the federal funds rate unchanged at this month's meeting, but today's report keeps alive the potential for another interest rate hike in coming months.**

Beyond the sharp rise in gasoline prices, the details hold interesting results as well. Used vehicle prices fell 1.2% compared to July, the third straight month of declines, whereas new car prices rose 0.3%. The important owner's equivalent rent measure rose 0.4%, an improvement from the month prior but still uncomfortably elevated.

Figure 1: Consumer Price Index



Source: BLS, Bloomberg

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