

August 2018 Consumer Price Index, September UI Claims

Consumer Prices Up Moderately in August

- The Consumer Price Index for August increased by 0.2 percent.
- Initial Claims for Unemployment Insurance fell by 1,000, to hit 204,000 for the week ending Sept. 8.

Consumer inflation remains moderate in August as the headline Consumer Price Index increased by 0.2 percent, the same as it did in July, and for four out of the last five months. Over the 12 months ending in August the CPI was up by 2.7 percent, largely due to energy price gains late last year and early this year. In both June and July, the 12-month change in the CPI was higher at 2.9 percent. With recent moderation in monthly gains, the year-over-year changes in the CPI will gradually come down this fall. In August, the energy sub-index was up by 1.9 percent after falling in June and July. The food sub-index was up only 0.1 percent. Core CPI (all items less food and energy) increased by 0.1 percent in August.

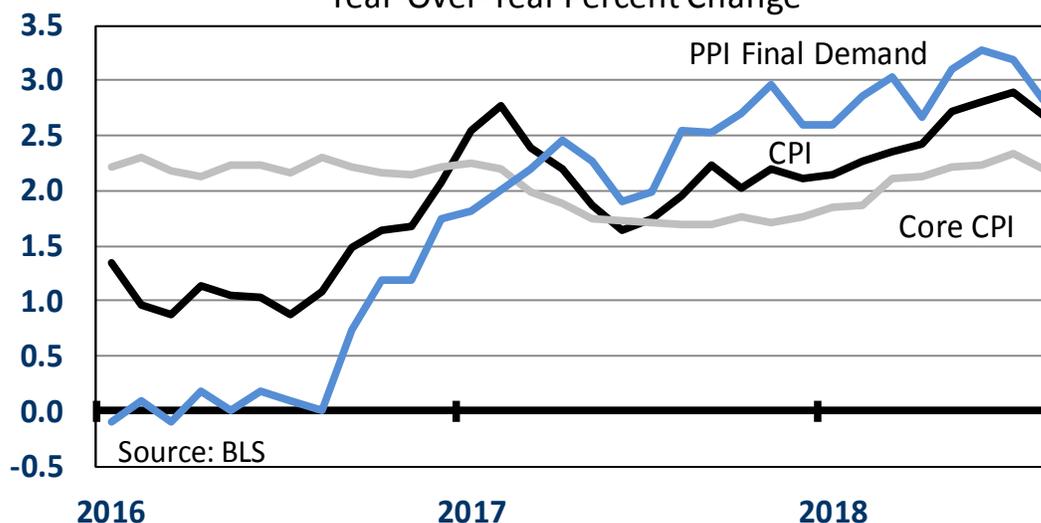
It is a complex inflation picture right now. We see from today's CPI report for August and yesterday's PPI report for August that the high-level inflation indexes are coming back to earth after posting strong year-over-year gains through mid-summer. However, average hourly earnings warmed up in August and virtually all other labor market indicators are showing tight conditions, which our textbooks say is a precursor to higher inflation. We believe that the Federal Reserve is highly likely to raise the fed funds rate twice more this year, on September 26 and December 19, by 25 basis points. They want to remove monetary accommodation as the economy warms up, keeping an eye on the inflationary potential of very tight labor markets. As we move through 2019 however, we believe that the Fed will downshift its cadence of a rate hike every other meeting as year-over-year inflation measures moderate and economic growth eases by the end of next year.

Initial claims for unemployment insurance continue their downside breakout, visible since early July. Initial claims fell by 1,000 for the week ending September 8, to hit an extremely low 204,000. Continuing claims fell by 15,000, to hit 1,696,000 for the week ending September 1.

Market Reaction: U.S. equity markets opened with gains. The 10-Year Treasury bond yield is down to 2.96 percent. NYMEX crude oil is down to \$69.29/barrel. Natural gas futures are down to \$2.83/mmbtu.

Inflation Metrics Are Past Their Peak

Year-Over-Year Percent Change



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