

# U.S. Data Review

- CPI: moderate pressure in core concentrated in service prices
- Implication for the Fed: cut of 25 basis points likely at next week's meeting

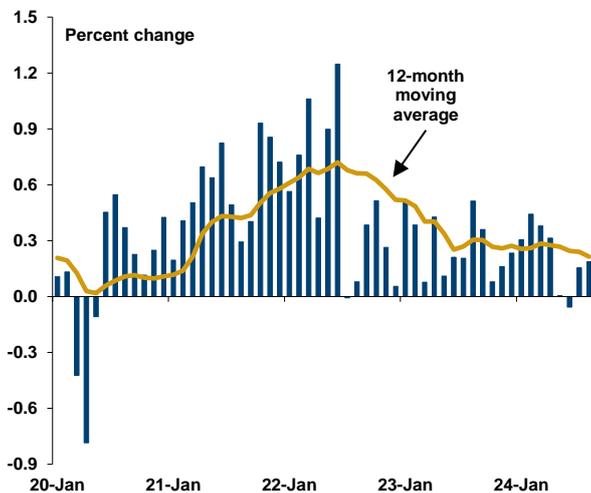
**Lawrence Werther**  
**Brendan Stuart**

Daiwa Capital Markets America  
 lawrence.werther@us.daiwacm.com  
 brendan.stuart@us.daiwacm.com

## August CPI

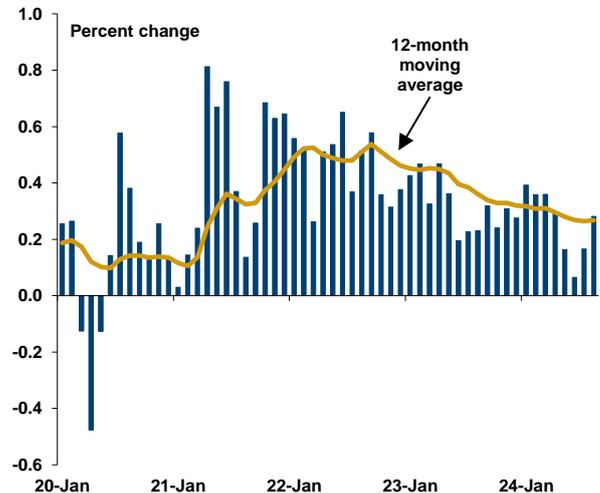
- The CPI print for August likely closed the door on the possibility of a 50 basis point rate cut at next week's FOMC meeting. Given recent guidance by Fed officials, we had already viewed a measured cut (25 basis points) as the more probable outcome, but the CPI for August was the final piece of data that could have tipped the scales in favor of a more forceful move. Thus, with an above-consensus reading on the core CPI (+0.3 percent versus the Bloomberg median expectation of +0.2 percent), focus could now shift to the final two meetings of 2024 (November 6-7 and December 17-18). Regarding policy changes at those meetings, we suspect that Committee members have yet to formulate firm views – their thinking will be informed by the incoming data, both for inflation and the labor market.

### Headline CPI



Source: Bureau of Labor Statistics via Haver Analytics

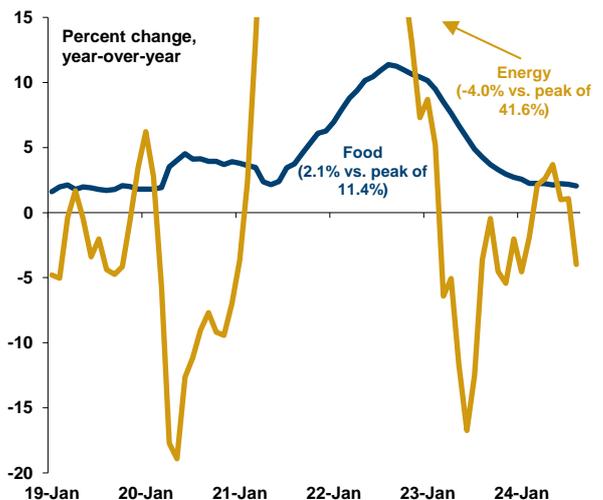
### Core CPI



Source: Bureau of Labor Statistics via Haver Analytics

- With respect to the latest CPI release, the headline measure increased 0.2 percent in August and the core advanced 0.3 percent (+0.187 percent and +0.281 percent, respectively, with less rounding; charts, above). The changes translated to year-over-year advances of 2.5 percent for the headline (versus +2.9 percent in July) and 3.2 percent for the core (+3.197 percent in August versus +3.171 percent in the prior month).
- The food component was tame in August (+0.1 percent; +2.1 percent year-over-year), further solidifying the recent subdued trend after upside pressure earlier in the expansion (chart, right). The food at home component was little changed (i.e. the cost of groceries; +0.021 percent, rounding down to no change), while the food away from home component rose 0.3 percent (not seasonally adjusted).

### CPI: Food & Energy



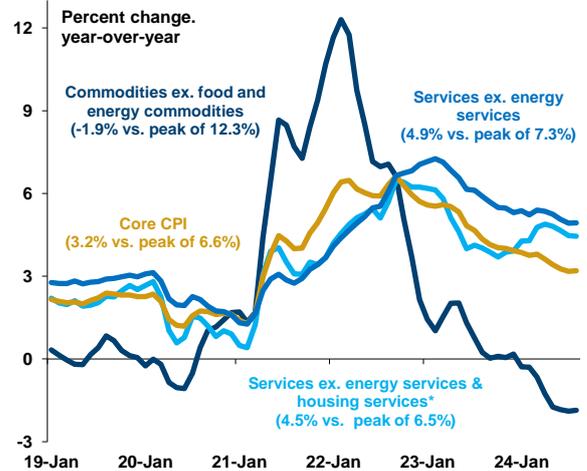
Source: Bureau of Labor Statistics via Haver Analytics

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- The energy component declined 0.8 percent (-4.0 percent year-over-year; chart, prior page). In the latest month, a dip of 0.7 percent in the prices of energy commodities was joined by an easing of 0.9 percent in the costs of energy services (electricity costs slipped 0.7 percent and the costs of utility piped gas service fell 1.9 percent).

- The advance of 0.3 percent in the core component was a notable deviation from tame observations in the previous three months (average increase of 0.13 percent over that span; +3.2 percent year-over-year; chart, right).  
Commodity prices excluding food and energy slipped 0.2 percent (-1.855 percent year-over-year versus -1.892 percent in July). The ongoing deflationary trajectory in this area is clear evidence of a return to normal after supply chain disruptions and a concurrent spike in demand for goods (vehicles, appliances, etc.) during the early stages of the pandemic led to a surge in prices. Service prices excluding food and energy, by comparison, rose 0.4 percent (4.931 percent year-over-year, up fractionally from 4.922 percent in July). The shelter component again featured prominently in the latest reading (+0.5 percent month-to-month; +5.2 percent year-over-year). Shelter away from home, which includes hotel fees as well as housing at school, increased 1.8 percent (+1.8 percent year-over-year). Additionally, primary housing components remained under pressure. The rent of primary residence component increased 0.4 percent and the owners' equivalent rent of residences area rose 0.5 percent (+5.0 percent and +5.4 percent, respectively, year-over-year versus pre-pandemic trends in the mid-to-upper 3's). Core service inflation excluding rents and OER (the so-called supercore) increased 0.3 percent after subdued readings in the prior three months (chart, below left). Notably, airfares surged 3.9 percent after declines in the previous five months, and the costs of motor vehicle insurance continued to trend higher (+0.6 percent in August). On a year-over-year basis, the advance in the supercore measure held steady at 4.5 percent.

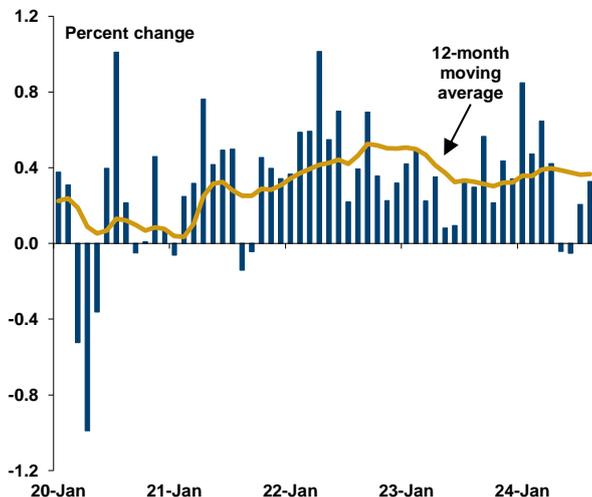
**Decomposition of Core CPI**



\* Service prices excluding energy services, rent of primary residence, and owners' equivalent rent components.  
Source: Bureau of Labor Statistics via Haver Analytics

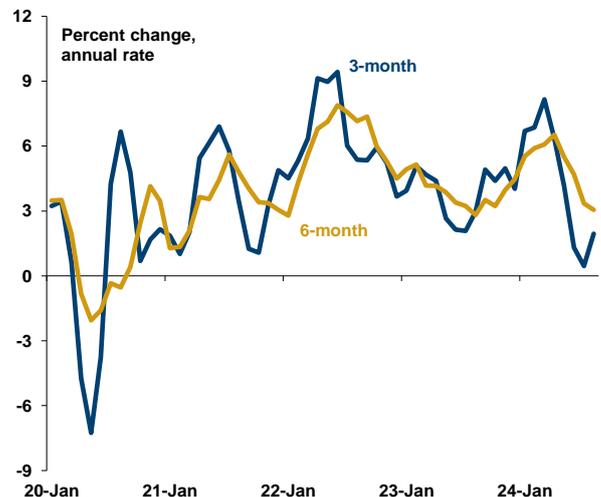
- To better contextualize the data on the supercore metric in terms of trends tracked by Fed officials, see below the three and six-month annualized growth rates. On a three-month basis, the measure advanced 1.9 percent versus 0.5 percent in July, while the six-month growth eased to 3.1 percent from 3.4 percent. In our view, the data are in line with an improved underlying trend in inflation – one consistent with Fed officials gaining enough confidence to begin reducing the target range in the federal funds rate at the September FOMC meeting. However, the data also likely align with a moderate cut rather than a more significant one (25 basis points rather than 50).

**CPI: Core Services Ex. Housing**



Source: Bureau of Labor Statistics via Haver Analytics

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Source: Bureau of Labor Statistics via Haver Analytics