Economic Update

September 11, 2024

CPI Inflation Outpaced Expectations in the Core Metric, Accelerating to +0.3% for August 2024

- **Core CPI, less Food & Energy, rose 0.3% in August 2024, accelerating from its recent at-target annualized trend**
- **Topline CPI rose by 0.2% in August 2024 in seasonally-adjusted terms, meeting PNC's expectations**
- **Services less Rent of Shelter inflation rose at a 1.2% annualized rate – its fastest pace of gain since April 2024**
- **Gasoline prices fell by 0.6% in August 2024, leading overall Energy inflation to a -0.8% monthly decline**

Consumer Price Index (CPI) inflation came in above PNC's expectations for August 2024 in the Core measure, at +0.3% while matching the anticipated Topline gain of +0.2%. Core CPI inflation mirrors the metric that the Federal Reserve targets in its monetary policy impact goals (the Core Personal Consumption Expenditures Deflator), and August's jump should put to rest any lingering discussion of outsized Fed Funds rate cuts in the months ahead. PNC has forecasted three (3) 25 basis point rate cuts from the Fed's final three meetings of the year based upon the balance of easing inflation and weakening labor market conditions.

Core CPI, which excludes volatile food and energy inputs, rose by 0.3% in August 2024 versus the month prior. This gain ends Core CPI's three month trend of posting annualized monthly gains of 2.0% or less, rising at a 3.4% annualized pace for the month. It is worth noting that Core CPI was running consistently higher in the early months of 2024, topping 4.0% in annualized monthly gains throughout the entire first quarter. So while August's Core CPI growth rate is disappointing – especially to those holding out hope for more aggressive monetary policy easing from the Fed – the jump is not indicative of a complete breakdown of inflation's slow but steady march toward target.

Energy prices surprised to the downside in the August 2024 CPI report. Gasoline prices declined by 0.6% for the month and are now down by more than 10% versus one year ago. Oil prices have recently found a new level below the $70 mark for the West Texas Intermediate varietal. Lower costs for this critical commodity bodes well for upstream inflationary pressures, keeping that key element of producers' costs in check. And lower fuel prices are always good news for households' given the necessity of fueling up vehicles and the pressure valve they release with respect to the transportation costs of getting consumer goods to market.

Housing CPI relented modestly in August 2024, rising at a +0.3% monthly gain. This result follows the Housing CPI component index having jumped to a 0.4% monthly gain – translating to a 4.3% annualized pace – in July. Housing accounts for more than 40% of the overall Topline CPI index and includes necessities such as utility bills, and home maintenance needs (e.g., furniture). Recent declines in

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mortgage rates hint at the potential for stronger home sales in the year ahead, which would put Housing CPI back in the spotlight entering 2025.

Fed officials' rhetoric has shifted markedly toward alertness toward the labor market side of their dual mandate as inflation resumed its downward trend through the middle months of the year. The August 2024 CPI report, however, provides a stark reminder that risks remain on the inflation front and that monetary policy signals & actions that are too aggressive toward easing have the potential to again disrupt inflation's march lower, as was the case for much of the first half of 2024. A slow but steady pace of monetary policy easing (i.e., 25 basis point cuts per meeting rather than 50 bps.) may allow labor market deterioration to continue longer than would be the case under a shock & awe cutting campaign. But, after all, a "soft landing" was never going to be a landing at all if the U.S. labor market didn't cool, taking consumer spending trends and therefore demand-side pressure on inflation along with it.

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