September 11, 2025

CPI Inflation Gained 0.4% in August 2025, Outpacing Expectations

Headlines

- **Topline CPI grew by 0.4% in August 2025, up 2.9% versus one year ago.**
- **Core Inflation, excluding Food & Energy components, maintained a 0.3% monthly pace.**
- **Inflation for both New and Used Vehicles inflation accelerated for a second consecutive month in August 2025, up 0.3% and 1.0% for the month, respectively.**
- **At 0.4% Housing inflation posted its strongest monthly gain since April.**

Details

The Consumer Price Index (CPI) for outpaced PNC's expectations with a 0.4% monthly gain on the topline in August 2025. This is the fastest pace of CPI inflation since January (+0.5%). Housing CPI continued to apply upward pressure to the total CPI result with re-acceleration in August, bouncing back to a 4.0% year-over-year pace. And vehicle prices look to be joining Housing as big-ticket items with worrisome inflationary momentum. Used Vehicle prices are now 6.0% above year-ago levels and New Vehicles inflation is on the upswing, reaching +0.7% this month. The August 2025 CPI report underscores why pressure to ease monetary policy has not been uncontested.

Core CPI saw its strongest monthly gain since January, coming in at 0.35% in August 2025. Core CPI, which excludes volatile Food and Energy prices, saw its year-over-year pace accelerate to 3.1% in August. Core inflation had fallen to 0.1% in May before marching higher in each month since. The Core CPI number mirrors the metric that guides the Federal Reserve's policy decisions (the Core Personal Consumption Expenditures index). August's Core inflation reading shines a bright light on the fact that the Fed's mandate of maximizing employment and establishing stable inflation are at odds with one another. An exceptionally weak labor market suggests that lower interest rates are appropriate, but accelerating inflation demands the exact opposite outcome.

Vehicle price inflation has finally begun to hit consumers. Used Vehicle inflation had posted outright monthly declines from March through June. However, July and August reversed that trend emphatically, pushing year-over-year inflation on Used Vehicles to 6.0% – the strongest pace since the throes of the pandemic (7.2%, September 2022). Price inflation on New Vehicles has also crept into positive territory after having been negative to flat since the start of 2024. A +0.7% year-over-year pace for New Vehicles in August was built upon a 0.3% monthly rise – the strongest monthly jump in the category since December 2024 (+0.4%). The fact that the two largest purchases for most households – housing and vehicles – are seeing strong and

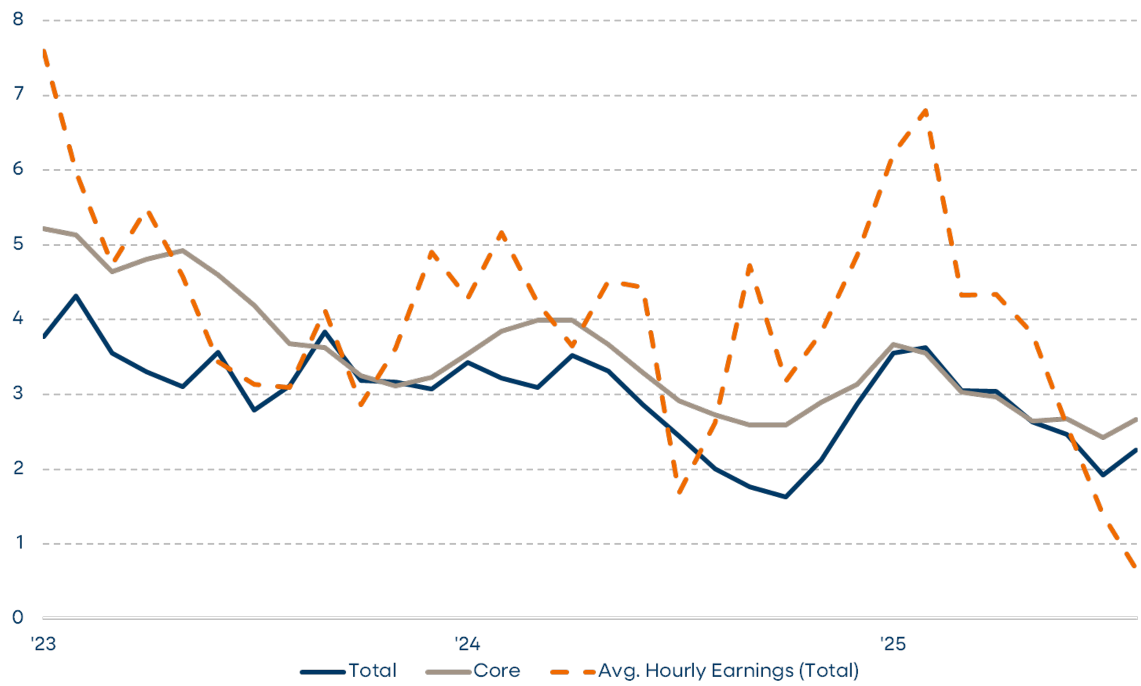
Gus Faucher	Jay Hawkins	Stuart Hoffman	Kurt Rankin	Ershang Liang
Chief Economist	*Senior Economist*	*Senior Economic Advisor*	*Senior Economist*	*Economist*

accelerating inflation suggests that a heavy weight will slow U.S. economic growth through the remainder of this year as consumers are faced with affordability-based choices rather than simply reorganizing discretionary spending.

Energy CPI bounced into positive year-over-year territory with a +0.7% monthly gain in August 2025, now up 0.4% versus one year ago. Year-ago Energy inflation hasn't been positive since January (+0.8%), and compounds households' inflation issues as the winter heating months approach. Gasoline prices also saw their strongest monthly gain since December 2024 at +1.9%, layering the higher cost demands of one more necessity onto household budgets that are now seeing average wage growth across the U.S. undershoot inflation significantly (+0.6% average annualized wage growth versus +2.3% for topline CPI).

The August 2025 CPI report is disheartening on all fronts. The Bureau of Labor Statistics revealed that nearly one million fewer jobs were created between March 2024 and March 2025. This is about half as many as are necessary even to absorb new labor market entrants. That trend strongly suggests that monetary policy easing is appropriate. But the past two CPI reports reveal a narrative in direct opposition, that restrictive monetary policy is necessary because consumer price inflation is by no means "stable." PNC is forecasting that the Fed will lean into its responsibilities to the labor market in the coming months, cutting the Fed Funds rate out of all of the FOMC's next four meetings, by 25 basis points per move.

Figure 1: Consumer Price Index, 6-month average annualized % change



Please reach out with any questions,

PNC Economics
Kurt Rankin, Senior Economist
economics@pnc.com