ECONOMIC UPDATE
REGIONS
September 17, 2013

August Consumer Price Index: Another Month, Another Tame CPI Print

- The total CPI rose by 0.1 percent (up 0.089 percent unrounded) in August, with the core CPI also up 0.1 percent (0.127 percent unrounded).
- On a year-over-year basis, the total CPI was up by 1.5 percent and the core CPI was up by 1.8 percent.

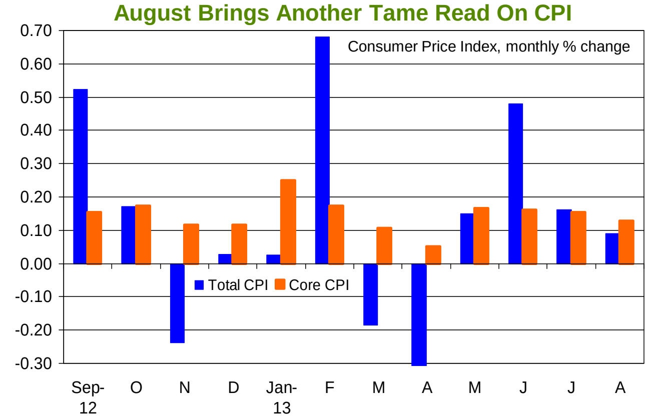
The CPI is on the verge of quietly fading into the background of the economic landscape as it posts month after month of tame headlines. In August, both the total CPI and the core CPI rose by 0.1 percent, translating into over-the-year increases of 1.5 percent and 1.8 percent, respectively. To be sure, if it's a choice between our tame inflation and a Zimbabwe-like episode of inflation so high it is hard to even fathom, we'll take tame any day of the week. That said, the concern in many quarters is that inflation has settled into such a tame pattern due to what remains a high degree of slack in the economy, reflecting excess capacity in much of the manufacturing sector and what remains a high degree of labor market slack. It is against this backdrop the FOMC starts their September meeting to debate the course of the Fed's large-scale asset purchases.

August brought few signs of inflation pressures on the horizon. Food prices rose by 0.1 percent, with prices for food consumed at home up 0.1 percent and prices for food consumed away from home up 0.2 percent. Retail gasoline prices fell by 0.1 percent, while prices for new motor vehicles were flat. Prices for household furnishings fell by 0.4 percent, continuing a string of monthly declines. Prices for home electronics were down by 0.3 percent with the 0.9 percent decline in prices for televisions leaving them down 15.5 percent from a year ago. While apparel prices were up by 0.1 percent, the dichotomy between prices for men's and boys' apparel (down further in August) and women's and girls' apparel (up further). Air fares fell sharply – down by 3.1 percent – marking a third consecutive monthly decline. To some extent, though, this is overstating the case, as any frequent flier can attest to, as fees for checking bags, checking in early, sitting in an almost normal sized seat, and pretty much everything an airline can charge you for doing have turned into big revenue streams for the airlines. One place where there was meaningful inflation pressure in August was medical care, with prices for hospital services and prescription drugs up sharply.

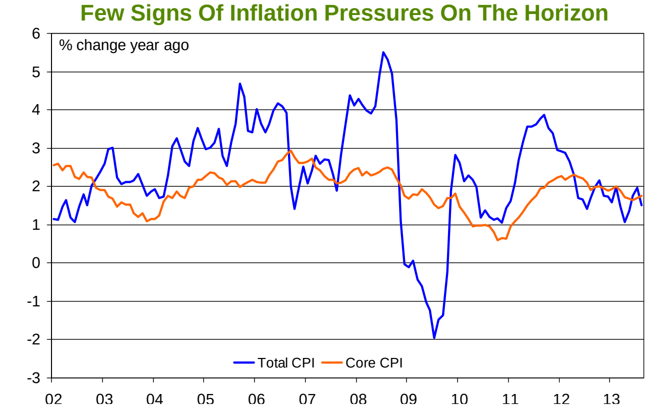
Still, while it is tempting to simply write off inflation as yesterday's news, there is an interesting, albeit largely overlooked, distinction to be made between prices for core goods and core services, as seen in the final chart opposite. While core inflation remains below the 2.0 percent pace widely viewed as the Fed's target rate, it is prices for core goods that are the primary culprit. It is here that, from late 2012 through the present, we have seen easing commodity prices and a firmer U.S. dollar contribute to lower input costs in the manufacturing sector. At the same time, worker productivity in manufacturing has run well ahead of overall productivity growth, contributing to declining unit labor costs. All of these factors have helped contain costs for manufacturers of goods with pricing power constrained by intense global competition, which has exerted a downward pull on overall core inflation. At the same time, prices for core (i.e.., non-energy) services have settled into a steady pace, with average year-over-year growth of 2.4 percent over the past 24 months. To be sure, this is shy of the pace seen prior to the Great Recession, indicating service providers see at least some limitations on their pricing power.

The broader point, however, is that the factors behind low core inflation are mainly seen in the goods producing sector of the economy and, given the global forces at play, are largely out of the Fed's hands. Moreover, any actions the FOMC takes that lessen the degree of monetary accommodation figure to prop up the U.S. dollar and thereby reinforce downward pressures on goods prices. So, while a faster pace of U.S. economic growth could turn up inflation pressures, there will be mitigating factors that will keep overall inflation largely in check for some time to come.

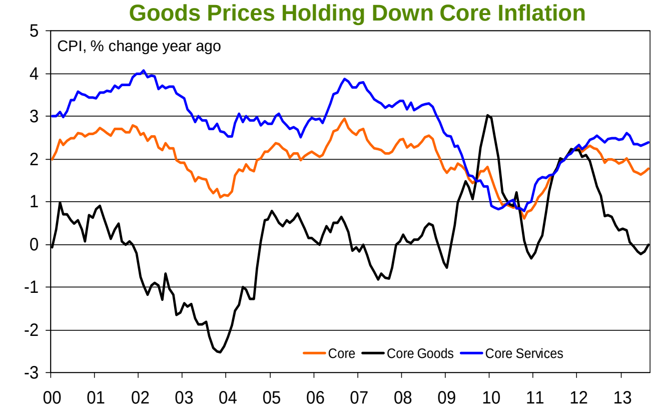
August Brings Another Tame Read On CPI



Few Signs Of Inflation Pressures On The Horizon



Goods Prices Holding Down Core Inflation



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