



# Economics Group

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## Moderating Consumer Inflation Trend Extends into August

*For the third straight month, headline consumer price inflation moderated in August as lower energy prices had a major dampening impact. A strengthening economic outlook still supports upward price pressures.*

### Energy Weighs on Headline

After accelerating on broad-based price gains in the first half of the year, the pace of headline consumer inflation, as measured by the Consumer Price Index (CPI), has slowed in recent months. That slowing trend perpetuated in August with the headline CPI falling for the first time in more than a year, down 0.2 percent, as lower energy prices more than offset small gains elsewhere.

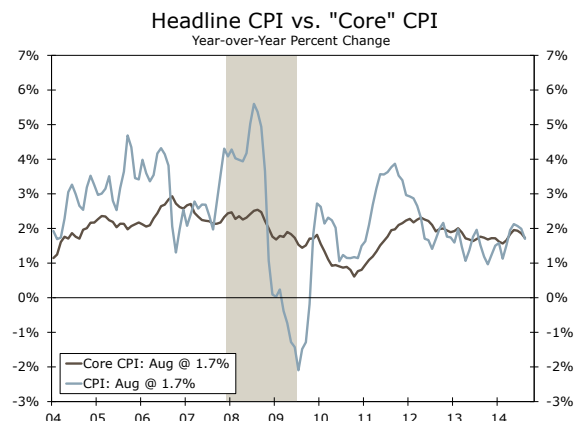
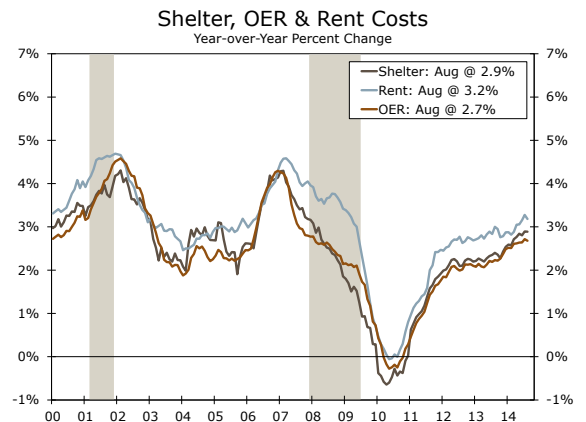
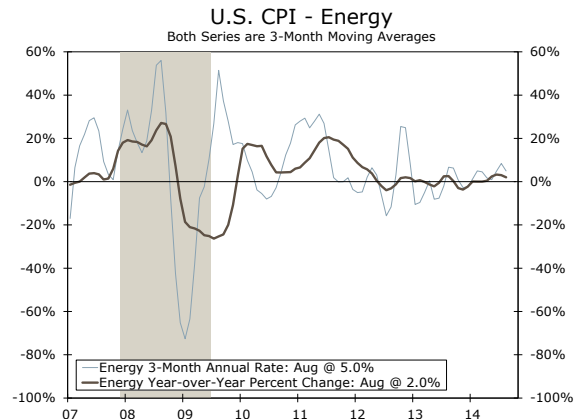
Following a 0.3 percent decline in July, energy prices, as expected, dropped 2.6 percent in August with most energy components lower on the month. Specifically, gasoline prices fell for the second straight month, down 4.1 percent, as ample levels of supply remain more than enough to meet current demand. While geopolitical concerns have not abated, the impact on global crude oil prices has been minimal and indeed the recent decline has provided increased purchasing power for the American consumer at a time when income growth remains subpar.

After rising 0.4 percent in July, the food index increased 0.2 percent in August as higher prices for meats, poultry and fish accounted for much of the gain. Outside of animal protein, gains were more modest and included substantial declines in fruits & vegetables and nonalcoholic beverages. Prices for food at home and away from home rose 0.2 percent on the month. Like oil, agricultural commodity prices over the past two months have fallen and should begin to modestly lower the rate of consumer food price inflation over the coming quarters.

Excluding food and energy, prices remained flat in August, marking the first time core prices have not posted a monthly increase since April 2010. The usual core CPI stalwart, shelter costs (up 0.2 percent), coupled with small gains from new vehicles, alcohol and personal care were offset by a second straight major drop in airfares (down 4.7 percent in August and 5.9 percent in July) and declines in used car and apparel prices.

### Soft Inflation Report Supports Fed Doves

Today's soft report, including year-over-year readings on the headline and core CPI still below 2 percent, should give the Fed doves ammunition at today's FOMC meeting to call for a continuation of a cautious and measured pace on the Fed's progression to normalizing monetary policy. That said, we still believe underlying domestic demand is poised to ramp up over the forecast horizon, thereby reducing spare capacity. As such, our expectations of a stronger recovery should push consumer inflation higher. As seen from its June forecast, the Fed largely agrees, but assumes a slower rate of price growth. With its updated economic outlook released alongside today's policy statement, interest is high on whether substantive changes will be made to the outlook.



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