ECONOMIC UPDATE

REGIONS

September 11, 2026

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August Consumer Price Index: Core Inflation Drifts Lower, But Likely Not Enough

- The total CPI <u>rose</u> by 0.4 percent in August (up 0.396 percent unrounded); the core CPI was up by 0.3 percent (up 0.290 percent unrounded)
- On a year-over-year basis, the total CPI is <u>up</u> 3.4 percent and the core CPI is <u>up</u> 2.4 percent as of August

The total CPI was up by 0.4 percent in August while the core CPI was up by 0.3 percent, each one-tenth more than our forecast anticipated and the change in the core CPI was one-tenth more than the consensus forecast anticipated. On a year-on-year basis, the total CPI is up 3.4 percent as of August with the core CPI up 2.4 percent, which is the smallest such increase in the core CPI since March 2021. Note that while the monthly changes in the total and core CPI were each one-tenth of a point more than we anticipated, the year-on-year changes match what we, and the consensus, anticipated, which shows the monthly changes are not too far away, on an unrounded basis, from what we expected. It is often said, however, that perception becomes reality, and while the focus is on the monthly change in the core CPI, we have the smallest year-on-year increase in the core CPI in over five years, and a tour through the details of the August CPI report does not show gathering inflation pressures across a broad array of goods and services. To that point, prices for education and communications services were up by 1.8 percent in August, which alone added one-tenth of a point to the monthly change in both the total and core CPI, with the primary culprit being a 5.9 percent increase in prices for cell phone services. So, is that really the basis on which to make decisions about the central bank's policy rate? Of course, given the moves in market interest rates and other central banks either having (ECB) or poised to (Bank of Japan) raise their policy rates, many would argue that the Fed pushing the funds rate higher next week was going to happen no matter what the August CPI data looked like. We continue to argue that most of the factors sustaining inflation pressures are beyond the reach of the FOMC but that may not matter if perception has indeed become reality.

The overall index of energy prices rose by 2.1 percent in August, led by a 3.9 percent increase in retail gasoline prices and a 6.8 percent increase in prices for fuel oil and other fuels. These hefty increases more than offset declines in electricity rates and prices for residential gas services. The overall index of food prices was up by 0.1 percent in August, with prices for food consumed at home flat and prices for food consumed away from home up by 0.3 percent. One point to note, however, is that as higher prices for diesel fuel begin to filter their way through the supply chain, that could lead to sharp increases in shipping costs that, in turn, work their way into food prices.

Core goods prices were up by 0.1 percent in August. While appliance prices were up by 1.3 percent, furniture prices were down by 0.9 percent. At the same time, apparel prices were flat. Prices for new motor vehicles were up by 0.3 percent and prices for used motor vehicles were up by 0.4 percent. Prices for medical care commodities were down by 0.2 percent, extending a run of declines over the past several months. Prices for recreational goods were flat, with higher prices for sporting goods and televisions offset by lower prices for other electronics, toys, and pet care products. The behavior of goods prices goes to our point about the August data showing a lack of broadly based price pressures.

Core services prices were up by 0.3 percent despite primary and owners' equivalent rents each being up by 0.2 percent. One place our forecast went off course is that prices for lodging away from home were up by 2.4 percent. As we noted in our preview of the August data, there was the possibility of payback for oddly large declines in both June and July, which we pointed to as an upside risk to our forecast. At the same time, prices for medical care services fell by 0.2 percent in August, while premiums for both health insurance and auto insurance are reported to have fallen. Auto rental and repair costs, however, were up sharply. As with goods prices, services prices are for the most part a series of contrasting moves that do not suggest broadly based inflation pressures, but three things stand out. The first is the jump in prices for cell phone services. Second, air fares were up by 2.7 percent on a seasonally adjusted basis as the 0.6 percent decline in not seasonally adjusted air fares was smaller than the typical August decline. Third, delivery service prices were up by 2.3 percent, which could reflect pass-through of higher diesel fuel costs but, even if that is the case, there is more to come here. These are the main forces behind the 0.4 percent increase in the index of "supercore services" prices, but this pace is unlikely to be sustained.

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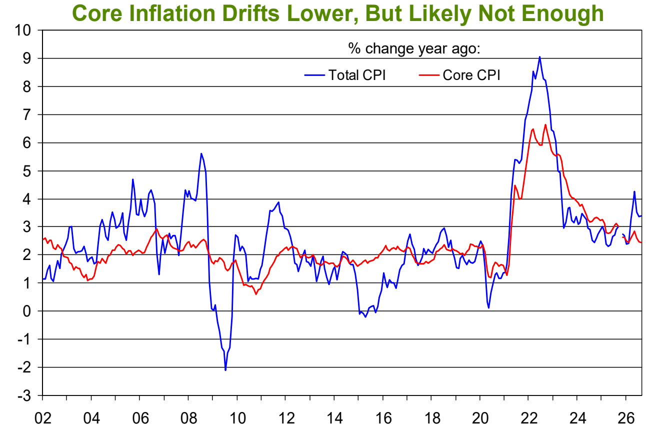

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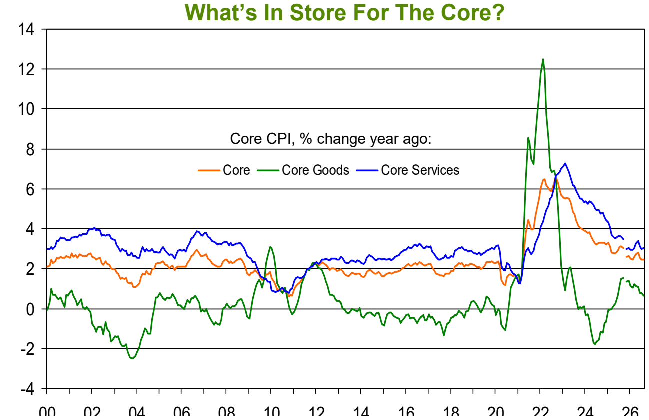
What's In Store For The Core?



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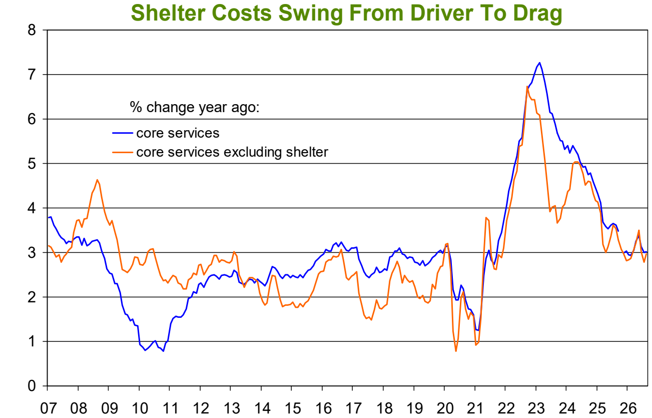
Shelter Costs Swing From Driver To Drag



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