

Economic Analysis

August Headline CPI Falls as Gas Prices Tumble

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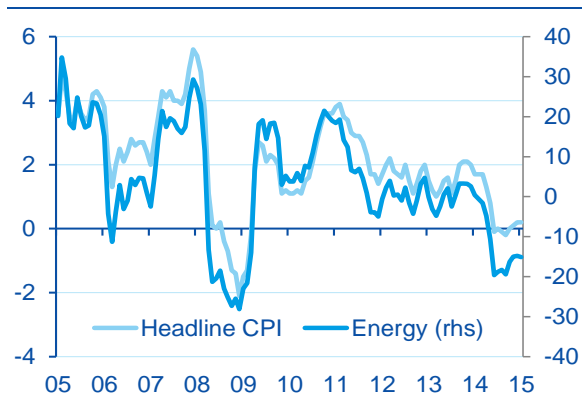
- **Headline CPI declined for the first time since January, falling 0.1% MoM**
- **The energy index dropped 2% MoM, with gas prices down 4.1% MoM**
- **Core CPI rose 1.8% YoY for the third consecutive month**

Headline CPI inflation for August came in soft, falling 0.1% MoM—its first decline since the beginning of the year—but rose 0.2% YoY. Core CPI, remaining steady at 1.8% YoY for the third month in a row, should contribute to a lively debate at this week’s FOMC meeting. The softness was in the details in August. The energy index fell 2% MoM, with gasoline prices going down 4.1% MoM—the lowest levels for these indices since January’s oil price plunge. Also feeling the impact of low fuel prices was the airline industry, as airfare fell 3.1% MoM, declining for the second consecutive month.

The 0.1% MoM gain in the core index was partly due to the costs of shelter and apparel, which increased 0.2% MoM and 0.3% MoM, respectively. In June and July, shelter costs had been on the rise due to significant gains in owner’s equivalent rent, or the amount a homeowner would earn from renting out his/her property. However in August, this indicator only experienced a modest gain of 0.2% MoM. This release stands in contrast with recent housing data indicating tightening supply in the housing market. The rise in apparel costs can be attributed to the back-to-school season which seems to have offset the impact of the strong dollar on the prices of imported goods. Despite the gain in the core index, the core commodities index declined for the fourth straight month, falling 0.1% MoM. Prices for used cars and trucks and transportation services contributed to the decline.

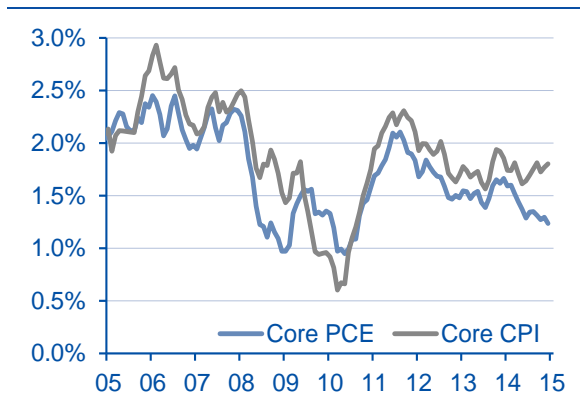
August’s CPI release offers little support of stabilizing inflationary pressures, at least at the headline level. In addition, the Fed pays special attention to core CPI, which has failed to show a significant gain on a YoY basis. The FOMC will be looking for further signs of a recovering economy when they make their decision on the timing of the first rate hike this week, and inflation is likely to provide more support to the doves.

Chart 1
Headline and Energy CPI
YoY %Change



Source: BLS & BBVA Research

Chart 2
Core PCE and CPI
YoY %Change



Source: BLS, BEA & BBVA Research

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