RBC Economics & Thought Leadership

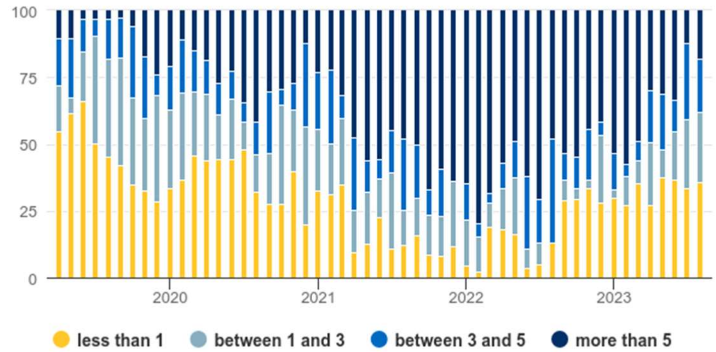
Economic Update

September 13, 2023

Broader U.S. price pressures muted in August

- The increase in headline CPI in the U.S., from 3.2% in July to 3.7% in August was largely expected, given a 10.6% month over month seasonally adjusted increase in gasoline prices.
- Energy prices overall grew by 5.6% from July but were still down 3.6% from a year ago. The negative yearly price gap will likely continue to narrow in the months ahead, as oil prices drift higher upon Saudi Arabia and Russia's announcement of an extension to their current production cuts.

Scope of inflation pressures continues to narrow in the U.S.
Share of CPI basket ex-shelter by annualized near-term (3m/3m) growth rate



Source: Bureau of Labor Statistics, RBC Economics

- Food inflation broadly continued to ease on a year over year basis, registering a 4.3% increase from August last year. The easing in grocery inflation (+3%) also still leads slowing price growth for eating out (+6.5%), as the latter's still supported by strong domestic services demand.
- 'Core' inflation excluding food and energy slowed sharply in August, to 4.3% year-over-year from 4.7% in July thanks to ongoing moderations in home rent. In August, the monthly growth rate in rent prices dropped to 0.3% from July, matching the slower average monthly growth rate in pre-pandemic 2019.
- On a three-month annualized basis, growth in core services ex-shelter prices (the 'super core' measure preferred by the Fed as a gauge of domestically driven price pressures) ticked up slightly to 2.2% in August from 1.7% in July. That's still around the 2.6% average rate for the same measure in 2019. The scope of inflation pressures in the U.S. stayed relatively narrow, at levels similar what was seen in early 2021.

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- **Bottom line:** Looking through the pick-up in headline CPI in August, underlying inflation pressures remained relatively muted in the U.S. That's contrasting stronger data on consumer spending which raised doubt on whether low inflation rates over the summer can be sustained over the longer-run. The Fed won't hesitate to raise the Fed Funds range higher from 5.25% - 5%, if price pressures were to reaccelerate. But already-low core inflation readings and signs of deteriorating labour market conditions (lower job openings and a tick higher in the unemployment rate in August) should give them plenty of space for the Fed to opt for a pause again next week, returning to the "stop and go" pace while waiting for more weaknesses in economic data to come through. We continue to point to headwinds like a near-depleted excess savings pocket, and the restart of the student debt repayment in October for our expectations that consumer spending will start to slow very soon, and for that to keep inflation low and steady at current levels and the Fed on the sidelines through the rest of the year.

U.S. CPI Growth

	Jun-23	Jul-23	Aug-23	Aug-23
	MoM % change (SA)			*YOY % change (NSA)*
Headline	**0.2**	**0.2**	**0.6**	**3.7**
Food	0.1	0.2	0.2	4.3
Energy	0.6	0.1	5.6	-3.6
Core	**0.2**	**0.2**	**0.3**	**4.3**
Goods ex food and energy	-0.1	-0.3	-0.1	0.2
Used cars and trucks	-0.5	-1.3	-1.2	-6.6
Services ex energy	0.3	0.4	0.4	5.9
Rent of shelter	0.4	0.4	0.3	7.3