

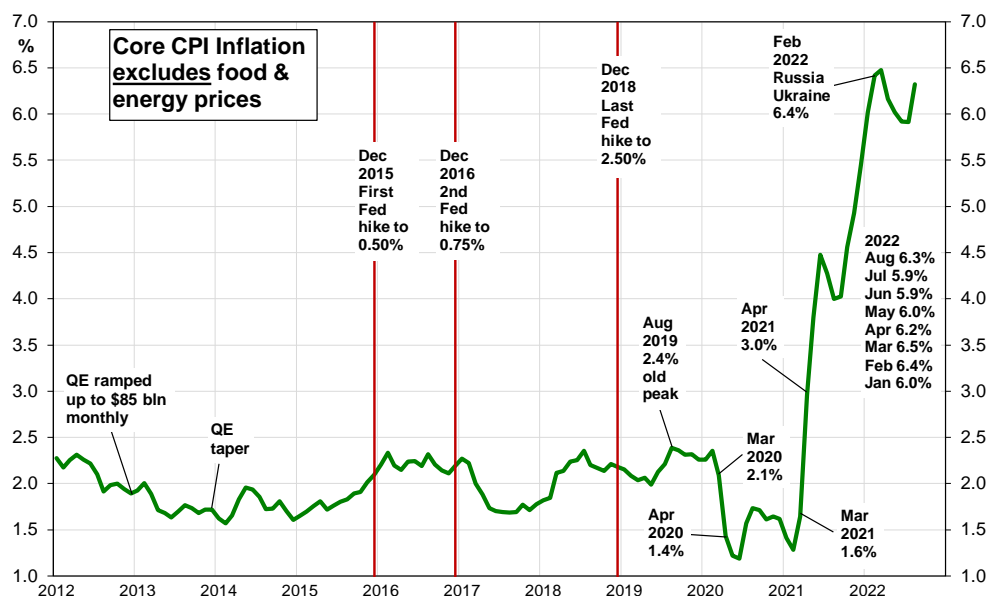
# Breaking Economy News

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## WHO'S AFRAID OF THE BIG BAD INFLATION WOLF?

Breaking economy news. August CPI rose 0.1% which is 8.3% higher than a year ago. The 10.1% collapse in gasoline prices at the pump couldn't bring down inflation to match the 0.0% change in July and the market's hopes for a negative headline inflation report were dashed. The report was a disappointment and strangely not consistent with the softer price increases seen recently in



the personal consumption deflator. Core CPI jumped back 0.6% in August after taking July off with a weaker 0.3% rise. If 0.3% is the minimum monthly underlying inflation rate, the Fed's progress in fighting inflation is less than one could have hoped.

Net, net, the Fed has more to do to keep inflation from rising and a 75 bps rate hike is a virtual certainty at next week's meeting. The market was going straight up in the days, hours and minutes before the report today, showing no fear at all and making some wonder if there was a data leak. There obviously wasn't a leak. Stocks were up 0.7% at 830am ET CPI release time and down 1.3% five minutes later. Put another log on the fire when it comes to Fed rate hikes, the market is. Fed funds futures are now discounting 75 bps in September, 50 bps in November and another 50 bps in December ending the year at 4.25%. Before CPI today, a year-end Fed funds rate of 4.0% was discounted.

Weight	CPI inflation	Monthly Percent Changes			YOY %
		Jun 2022	Jul 2022	Aug 2022	
100.0	Total	1.3	0.0	0.1	8.3
13.372	Food	1.0	1.1	0.8	11.4
5.077	Food away from home	0.9	0.7	0.9	8.0
9.200	Energy	7.5	-4.6	-5.0	23.8
77.428	Ex-food & energy	0.7	0.3	0.6	6.3
3.999	New vehicles	0.7	0.6	0.8	10.1
4.008	Used cars/trucks	1.6	-0.4	-0.1	7.8
2.419	Clothing	0.8	-0.1	0.2	5.1
1.465	Medical care goods	0.4	0.6	0.2	4.1
32.065	Shelter	0.6	0.5	0.7	6.2
23.502	Owner equiv. rent	0.7	0.6	0.7	6.3
5.900	Transportation	2.1	-0.5	0.5	11.3
6.772	Medical care services	0.7	0.4	0.8	5.6
Special: Where inflation might come back down to					
56.306	Services ex-energy	0.7	0.4	0.6	6.1

The report answered the question, who's afraid of the big bad inflation wolf? The market wasn't and had its hand slapped by the worrying inflation outlook at the core level where housing, and medical care services prices look unstoppable; even the modest 0.1% drop in used cars and trucks was less than expected. The supply chain disruptions are starting to fade with delivery times falling but apparently not enough as consumer commodities less food and energy bounced back with a 0.5% gain after a 0.2% rise last month. The Fed isn't winning the inflation battle yet so big rate hikes are on the horizon, bet on it. The cost of living crisis is literally exploding and investors are heading for the hills.

#### Core Consumer Inflation and stickier services prices ex-energy

Monthly % Changes	2022						2021						2021				
	<u>Aug</u>	<u>Jul</u>	<u>Jun</u>	<u>May</u>	<u>Apr</u>	<u>Mar</u>	<u>Feb</u>	<u>Jan</u>	<u>Dec</u>	<u>Nov</u>	<u>Oct</u>	<u>Sep</u>	<u>Aug</u>	<u>Jul</u>	<u>Jun</u>	<u>May</u>	<u>Apr</u>
Core CPI inflation	0.6	0.3	0.7	0.6	0.6	0.3	0.5	0.6	0.6	0.5	0.6	0.3	0.2	0.3	0.8	0.7	0.9
Services x-energy	0.6	0.4	0.7	0.6	0.7	0.6	0.5	0.4	0.3	0.4	0.4	0.2	0.1	0.3	0.4	0.4	0.5
Core PCE inflation		0.1	0.6	0.4	0.3	0.3	0.3	0.5	0.5	0.5	0.5	0.2	0.3	0.3	0.5	0.6	0.6
Services x-energy		0.1	0.6	0.4	0.4	0.4	0.3	0.3	0.4	0.5	0.3	0.2	0.3	0.4	0.4	0.4	0.4

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