

U.S. Data Review

- CPI: sticky inflation reading unlikely to derail easing in monetary policy, although a reduction of 25 basis points more likely than 50 at next week's FOMC meeting
- Core CPI: goods prices advance, in part reflecting tariff-related pressures, with services also recording a firm increase

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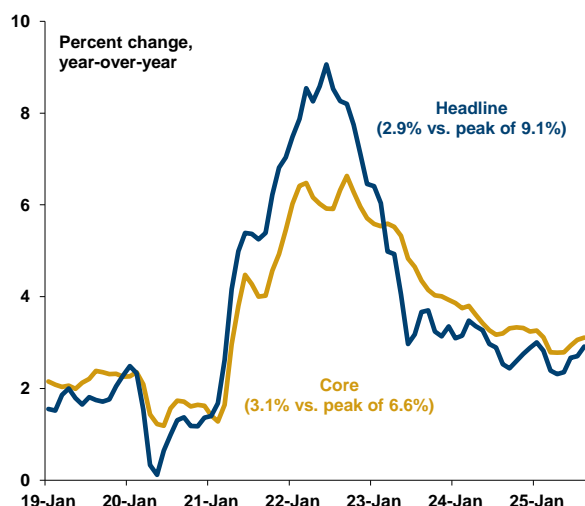
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August CPI

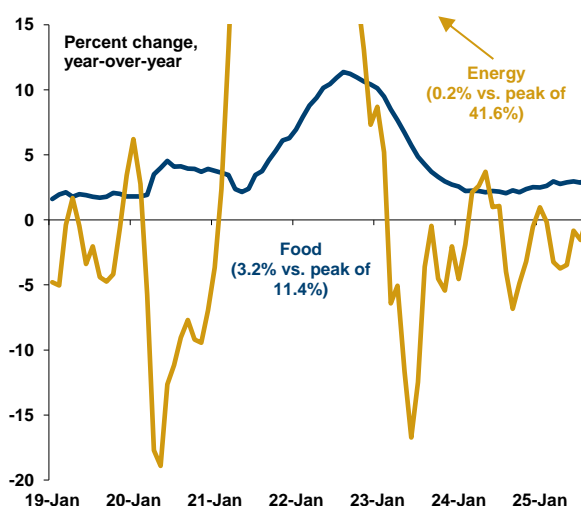
- The advance of 0.4 percent in the headline CPI in August (+0.382 percent with less rounding) was firmer than the Bloomberg survey median expectation of an increase of 0.3 percent, while the reading of +0.3 percent for core (+0.346 percent) matched the consensus view. The changes, which suggest that above-target inflation will linger for at least a time longer, translated to a year-over-year advance of 2.916 percent for the headline index (versus 2.705 percent in July) and 3.110 percent for the core (up marginally from the +3.059 percent pace in July; chart, below left). The latest data are likely to quell speculation regarding a 50-basis-point cut at the September 16-17 FOMC meeting, although they remain consistent with recent statements by Fed officials supporting incremental cuts in light of downside risks to the labor market.
- In the latest month, the energy component rose 0.7 percent (+0.2 percent year-over-year; chart, below right), with a jump of 1.7 percent in the costs of energy commodities offsetting a dip in the energy services area (-0.2 percent). An increase of 1.9 percent in gasoline prices was a key driver of the gain in energy commodities, although this component has bounced around from month-to-month amid a downward trend after peaking in mid-2022. Contrastingly, costs of energy services have marched higher since the summer of 2024, but a second consecutive decline in the price of piped gas service (-1.6 percent in August) offset a pickup of 0.2 percent in electricity costs in the latest month.
- The food component rounded up to an advance of 0.5 percent in August (+0.458 percent with less rounding) – the firmest increase since a surge of 0.511 percent in January 2023. The change led to an acceleration of 0.3 percentage point in the year-over-year increase to 3.2 percent. While the trend in the food component is not overtly threatening at this time, the recent pickup could signal another impediment for consumer budgets that are increasingly showing strains.

CPI: Headline & Core



Source: Bureau of Labor Statistics via Haver Analytics

CPI: Food & Energy

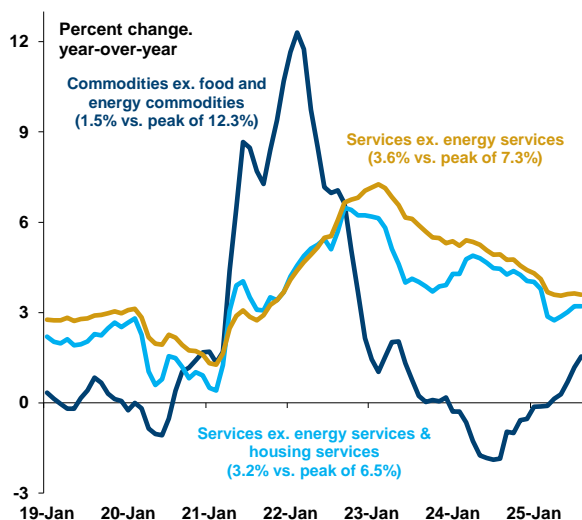


Source: Bureau of Labor Statistics via Haver Analytics

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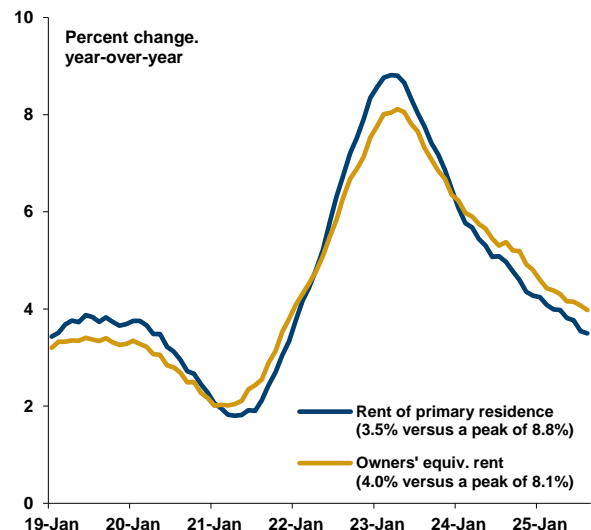
- The increase of 0.3 percent in the core reflected a pickup of 0.3 percent core goods prices (+0.276 percent) and a +0.349 percent change in services excluding energy services. The advance in the goods area equated to a year-over-year change of +1.5 percent (up from +1.2 percent in July). Prices of used cars and trucks were a key source of pressure, jumping 1.0 percent, with a same-sized change in tobacco prices. In the area of goods likely influenced by tariffs, apparel prices (which has previously shown little influence) rose 0.5 percent. On the service front, the year-over-year reading was little changed from that in July (+3.587 percent versus 3.637 percent previously). The primary housing components came in a bit firmer than in other recent months with the rent of primary residence component increasing 0.300 percent versus a trailing three-month average of +0.232 percent and owners' equivalent rent of residences printing at +0.382 percent versus a trailing three-month average of +0.285 percent. With that said, year-over-year readings are mostly in line with pre-pandemic trends (which were broadly consistent with two percent inflation). The core services ex. housing area recorded an increase of 0.330 percent in August, down from 0.479 percent in July, although the year-over-year change moved sideways at 3.211 percent. In the latest month a surge of 5.9 percent in airline fares and 2.6 percent in hotel fees stood out. Contrastingly, the broad medical care services area dipped 0.1 percent after back-to-back firm readings including an increase of 0.8 percent in July.

Decomposition of Core CPI



Source: Bureau of Labor Statistics via Haver Analytics

CPI: Primary Housing



Source: Bureau of Labor Statistics via Haver Analytics

- All told, the CPI data showed less progress in August that we had hoped for when assembling our forecast, although we maintain the view that tariff-related price pressure is likely to peak later this year and then ebb into 2026. Moreover, with the labor market softening, we anticipate that moderating wage growth will curtail further pressure in non-housing services. Thus, we still expect the FOMC to cut by 25 basis points in September, consistent with signaling by Chair Powell at Jackson Hole that noted a shift in the balance of risks and an intensified focus on underlying labor market conditions even as inflation remains above two percent.