September 13, 2022

U.S. core inflation accelerated in August

- Headline CPI growth slowed to 8.3% year-over-year as gasoline prices fell
- Core inflation (excluding food and energy products) beat consensus expectations with a 6.3% print
- Broad and elevated inflation pressures call for more action from the Fed; we expect the Fed Funds rate to rise to 3.75% - 4% range by the end of 2022

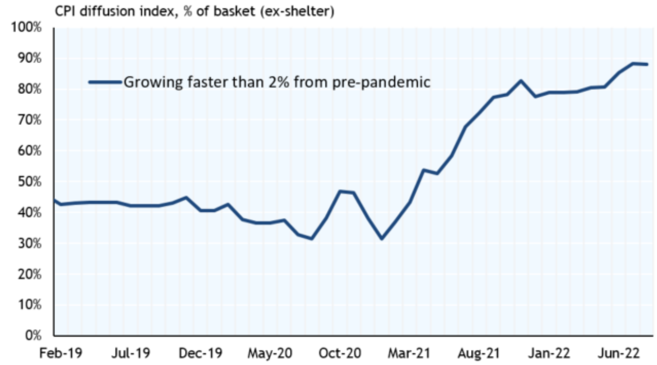
As expected, the headline inflation rate in the U.S. was lower again in August thanks to a 10.6% month over month drop in gasoline prices. The dip in the year-over-year CPI rate to 8.3% was despite another leg higher in food prices (+11.4%) and an acceleration in inflation for everything outside of food and energy products. The latter 'core' inflation measure, ticked higher to 6.3% from a year ago. It also rose 0.6% on a seasonally adjusted monthly basis – stronger-than-expected and back in line with the average increase over the first half of the year after slowing temporarily in July. That increase was broadly-based with strength seen in a variety of items including rents (+0.7%), medical care services (+0.8%) and household furnishings (+1.1%).

Core inflation in the U.S. is expected to stick at higher levels for a bit longer before ultimately leveling off towards the end of this year. Much of the near-term strength is expected to continue to come from a heated rental market. Meantime, headline CPI looks increasingly likely to have peaked already, and should continue to fall in the months ahead on lower oil and gasoline prices. The producer price index which measures changes in output/selling prices by domestic producers also declined in July for the first time since April 2020. That's in line with continuing moderation in global supply chain pressures, driven by slowing demand for goods globally. Still, current inflation pressures are incredibly broad-base. In August, we counted nearly 90% of the consumer basket (excluding shelter services) were still seeing annual inflation at rates above the Federal Reserve's 2% target. That broad-based of an inflation pressure will require a bigger drag in consumer demand, and more central bank actions to ultimately bring fully under control. We expect the U.S. Fed will raise its target rate by 75 later this month, and 50 bps and 25 bps in each of its meetings in November and December to bring the Fed Funds to 3.75% - 4% by the end of this year.

U.S. CPI Growth

	Jun-22	Jul-22	Aug-22	Aug-22
	MoM % change (SA)			*YoY % change*
Headline	1.3	0.0	0.1	8.3
Food	1.0	1.1	0.8	11.4
Energy	7.5	-4.6	-5.0	23.8
Core	0.7	0.3	0.6	6.3
Goods ex food and energy	0.8	0.2	0.5	7.1
Services ex energy	0.7	0.4	0.6	6.1

Broad-based inflation pressures foreshadow more rate hikes



Source: Bureau of Labour Statistics, RBC Economics

Claire Fan | Economist, RBC Economics | Royal Bank of Canada | T. (416) 974-3639

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