MILLER TABAK + CO., LLC

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**A Note on August CPI**

The August CPI report was about as expected. It doesn't change our outlook and, to be fair, it will not change the minds of those who are more concerned with inflation than we are. We offer the following thoughts:

1. The elevated headline figure is obviously the result of the latest surge in energy prices. The bad news is that there is also clear pass through to core-CPI, which rose at a 3.5% annualized rate, its first elevated reading since April. This was led by transportation services, which are sensitive to fuel prices and rose at a 5.4% rate, including airfares which were up 31.4%. We are not concerned and expect that **this increase in core-CPI will quickly reverse soon after gasoline prices stabilize**. Some members of the FOMC will, however, be bothered.

2. Unlike recent months, shelter is not to blame for pushing core-CPI up. August shelter inflation was 3.1% annualized, close to overall core-CPI. **Taking a longer view, however, core-CPI, ex-shelter, is at 1.95% y/y, just below target**. In other words, a poorly designed survey asking homeowners how much they would expect their property to rent for is largely to blame for y/y CPI remaining above target.

3. Since the July FOMC meeting, there has been one very bad and one very good jobs report. There have been two months of encouraging inflation data. There is no good reason for the Fed to raise rates. That said, a large segment of FOMC members are looking looking for a reason to do so and we think **a rate hike is slightly more likely than not**. Its main impact will be to further batter the housing market and further strain low-middle income consumers. It is not necessary to bring inflation down. That will happen even if the Fed instead lowered rates next week.

-Paul Shea

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