



Time EST	Indicator	For		Actual*	Estimate**	Consensus***	Previous Period****
08:30 AM	CPI MoM	Aug	=	0.1%	0.1%	0.1%	0.3%
08:30 AM	CPI Ex Food and Energy MoM	Aug	↑	0.3%	0.2%	0.2%	0.3%
08:30 AM	CPI YoY	Aug	↓	1.7%	NA	1.8%	1.8%
08:30 AM	CPI Ex Food and Energy YoY	Aug	↑	2.4%	NA	2.3%	2.2%
08:30 AM	Initial Jobless Claims	07-Sep	↓	204k	219k	215k	219k R↑
08:30 AM	Continuing Claims	31-Aug	↓	1670k	NA	1675k	1674k R↑
02:00 PM	Monthly Budget Statement	Aug			NA	-\$195.0b	-\$119.7b

* ↑ indicates stronger than Consensus estimated, ↓ indicates weaker than Consensus estimated, = indicates in-line with Consensus Estimated

** Estimate from Bank of the West Economics

*** Consensus from Bloomberg

**** ↑ means prior reading revised up, ↓ means prior reading revised down

Core Consumer Price Inflation Rises More Than Expected, Jobless Claims Fall to Almost Five-Month Low

Key Takeaways: *Headline consumer price inflation increased in-line with our expectations in August on higher medical care and shelter prices. Energy prices declined a sharp 1.9% while food prices remained flat for the third month in a row. Overall consumer prices are up modest 1.7% from August 2018, down slightly from July. But core consumer price inflation – which excludes the volatile food and energy components – came in hotter than expected, increasing 0.3% for the third straight month. Higher airline fares and used car and truck prices were primarily responsible for the upturn. Core consumer prices are up 2.4% from a year earlier, the largest increase since July 2018. Despite the acceleration in annual core inflation, the Fed is still expected to lower interest rates this month, given downside risks to U.S. and global growth and central bank easing around the world. The ECB cut the deposit rate to -0.5% from -0.4% today and will resume debt purchases on November 1st at a pace of 20 billion euros a month for as long as necessary to hit its inflation goal. German industrial production slumped another 0.4% in July worse than analyst forecasts. In a separate report, U.S. initial jobless claims fell to the lowest level in almost five months pointing to a still-healthy labor market in September.*

Overall U.S. consumer price inflation rose 0.1% in August, spot-on with our estimate. Increases in medical care (+0.9%, the biggest increase in three years) and shelter prices (+0.2%) outweighed a 1.9% drop in energy prices that was led by a 3.5% decline in gasoline prices. Food prices were unchanged for the third consecutive month. Overall consumer prices are up 1.7% from a year earlier, down from 1.8% in July.

Core consumer price inflation – which excludes food and energy – rose 0.3% in August, on par with the increases in June and July. The biggest increases were in airline fares (+1.7%) and used cars and trucks prices (+1.1%) while prices for new vehicles and household furnishings declined 0.1% in August. Core inflation is up 2.4% from a year ago, the largest 12-month increase since July 2018. Core consumer inflation is firming even before the latest round of tariffs on Chinese exports this month that may eventually result in even higher prices on the consumer goods that are being targeted. Still any spike in consumer inflation is expected to be temporary if economic growth deteriorates as we are forecasting. Despite this modest acceleration in annual core inflation, the Fed is still expected to lower the fed funds rate by a quarter point next week.



U.S. stocks are higher this morning after President Trump delayed additional tariffs on Chinese goods for two weeks (Until October 15th) as a good will gesture in the lead up to scheduled negotiations. The Dow and the S&P 500 are up 0.40% and 0.51% respectively, while the NASDAQ is up 0.68%. Gains in the S&P 500 are led by consumer discretionary, information technology, and materials stocks.

Treasury yields are higher across the curve today even after the European Central Bank cut interest rates and reintroduced quantitative easing to combat slower growth. The 10-Year Treasury yield is currently at 1.749 – up 1.0 basis points from Wednesday's close. The 2-10 Treasury spread is 5.8 basis points – down 1.0 basis points from Wednesday's close. The futures market probability of a Fed rate cut by September is 99.9%. The market is currently placing the odds of a 25 basis point rate cut in September at 99.9% and the probability of a 50 basis point cut at 0%.

The U.S. dollar is down against the major currencies today. The Bloomberg dollar spot index is down 0.26% from Wednesday's close and is down 0.07% over the last month. The U.S. dollar is losing the most today against the euro, Mexican peso, and Korean won today.