

Consumer Price Index | August 14, 2024

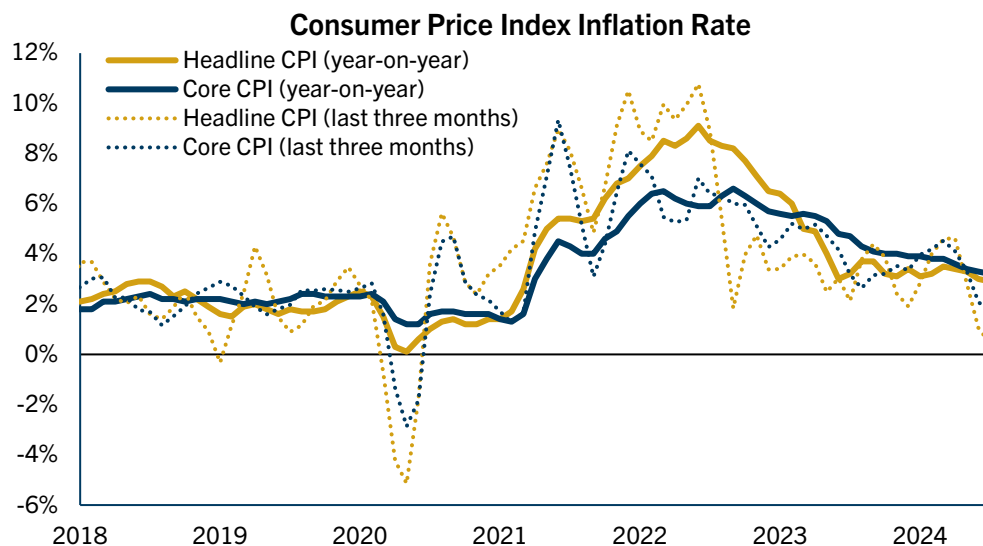
Lower Inflation Clears Final Hurdle for September Rate Cut

The July Consumer Price Index (CPI) report showed inflation continuing to moderate last month, likely removing the final hurdle for the Federal Reserve to cut interest rates in September.

Consumer prices rose by 0.2% in July, in line with forecasters' expectations and bringing the year-on-year inflation rate to +2.9%, the lowest since 2021. Core prices (ex-food and energy) rose at a similar pace with year-on-year inflation now at +3.2%. **Although these annual inflation rates are still well above the Fed's target of 2%, price data from the last few months has been much softer: in fact, over the last three months annualized inflation is running at just +0.4% compared to over +4.0% earlier this year (see chart).**

What is driving the recent trends? For several months, the bulk of "excess" inflation has been driven by housing and some services prices like insurance and healthcare. Meanwhile, goods prices – including food, household items, and the like – have actually moved down.

The initial market reaction was muted—a breath of fresh air. The 2-year and 10-year Treasury yields were little changed. S&P 500 futures also had a subdued reaction. Fed funds futures moved slightly higher but are still indicating 0.25-0.50% of rate cuts on September 18th. **Regarding the FOMC interest rate decision next month, all eyes now turn to Chairman Powell's speech at the Jackson Hole Economic Policy Symposium late next week.**



Source: Department of Labor, Bloomberg

CONTACT

Phillip Neuhart | SVP, Director of Market and Economic Research
 phillip.neuhart@firstcitizens.com
 919-716-2403

Blake Taylor | VP, Market and Economic Research Analyst
 blake.taylor@firstcitizens.com

Brent Ciliano, CFA | SVP, Chief Investment Officer
 brent.ciliano@firstcitizens.com
 919-716-2650

Takeaways

- Headline inflation (year-over-year): 2.9%
- Core inflation (year-over-year): 3.2%

What does it mean for you?

- This report likely removes the final hurdle for the Fed to cut interest rates.
- We believe the Fed will most likely start cutting interest rates in September.

What to watch:

- Fed Chairman Powell's Jackson Hole speech late next week.
- Employment data remains in focus.
- The next Fed rate decision is September 18th and will include the summary of economic projections.
- Stay informed and submit your questions at [FirstCitizens.com/Market-Outlook](https://www.firstcitizens.com/Market-Outlook).



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