The Daily Dish

August Consumer Prices

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Eakinomics: August Consumer Prices

Yesterday, the Bureau of Labor Statistics (BLS) released the August report on consumer prices. Consumer price inflation (CPI) came in softer than expected, with top-line CPI inflation at 0.3 percent for the month and 5.3 percent from August 2020. Excluding the volatile food and energy components, so-called “core” inflation rose only 0.1 percent to yield year-over-year inflation of 4.0 percent.

Nope, nope, nope. Do not trade that coffee for champagne. It is too soon to celebrate.

The BLS report is exactly right for August, but it may not tell us much about future inflation. Core inflation was held down because airline fares fell 9.1 percent, used cars and trucks 1.5 percent, and auto insurance 2.8 percent. Chalk it up to the impact of the Delta variant of the coronavirus on transportation. One of the most important components of the CPI is shelter, which accounts for about one-third of all spending. Shelter inflation moderated in August, but only because the index for “lodging away from home” – i.e. hotel rates – fell 2.9 percent, which is due to the impact of the Delta variant on travel again.

Even with the transient good news, top-line inflation is at an annual rate of 7.6 percent thus far in 2021, while the core measure is cruising along at 5.8 percent. But the key categories in the real world are food (5.1 percent), energy (38.9 percent), and shelter (4.0 percent), which total over one-half of the typical household budget. Shelter inflation in particular has been accelerating in each monthly report.

In short, consumers are hardly out of the inflation woods, especially because substantial pressure remains in the pipeline. Earlier this month the BLS put out its report on producer prices. The Producer Price Index increased 0.7 percent in August and 8.3 percent for the 12 months that ended in August. The latter is the largest advance since 12-month data were first calculated in November 2010.

Sorry about the champagne.