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US Macroeconomics

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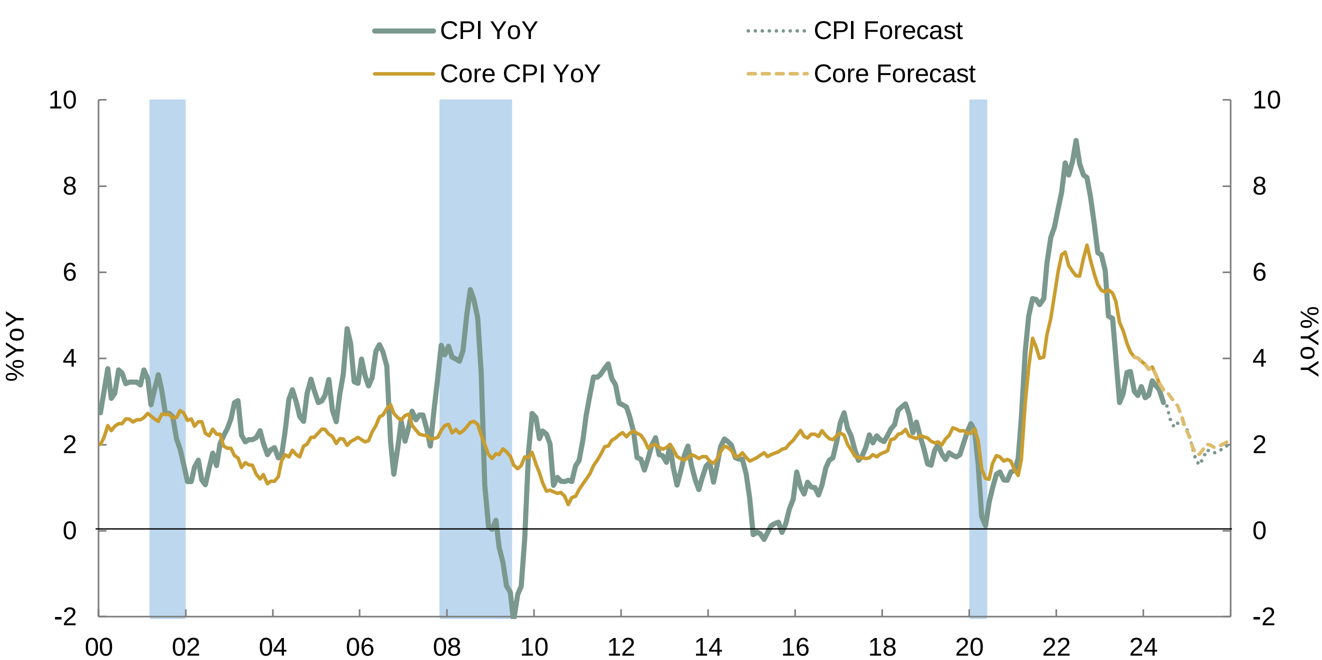
The (Sub) 2% Glide Path

CPI Preview: **We currently forecast CPI at 0.19% MoM / 2.9% YoY and core CPI at 0.18% MoM / 3.2% YoY**, in a relatively contained CPI report on August 14. We have long remained committed to our significant-disinflation view because: slowing home prices would lead shelter inflation much lower (see our May 28 snippet), quiescent fertilizer prices would lead to food prices stabilizing at around 2% YoY, and because lower oil prices would soften energy inflation and bring a battery of positive (disinflationary) effects downstream. **All these dynamics have materialized.** July's report has a few risks, however.

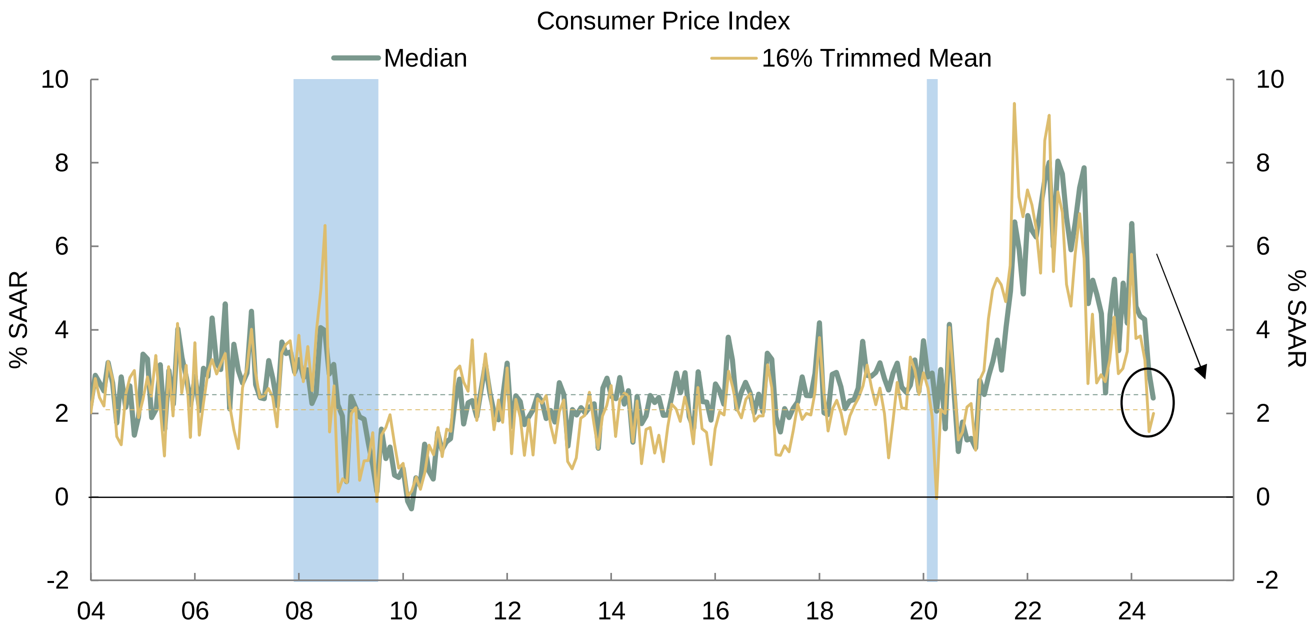
The first risk is if CPI shelter bucks its down trend. Although shelter costs are slowing (we are committed to this view), the series is noisy and has a large weight affixed to it. This means that **any ephemeral month-over-month departure from trend could lead to a hot CPI or core CPI print**. But little will fundamentally change in our medium-term inflation outlook if this happens. Second, **July gasoline prices rose 0.7% MoM suggesting that energy inflation could rebound some**. We forecast a small 0.3% MoM gain for CPI energy. Another risk is with car prices. Used car prices are a subcomponent of the critical core inflation series. The Mannheim used vehicle price index, which rose 2.8% MoM in July, tends to lead the CPI's used car and truck series by 2 months (bottom chart) and suggests that **used car and truck inflation in the CPI may accelerate some in the reports ahead**. Thankfully, this has a small 1.9% weight in the CPI. Although up from very low May and June figures, we expect that **Wednesday's report will help to provide the Fed with more rate cutting confidence on September 18**.

Outlook: We continue to see inflation heading lower by about a full percentage point. **The biggest reason for this view is that shelter inflation follows home prices with a 16-month lag.** We forecast that **shelter (a 36% weight in the CPI), will slow to the upper- to mid-+3% YoY range from June's +5.1% YoY reading.** For yearend 2024, we forecast both headline and core CPI at 2.4% YoY and at 2.0% and 2.1% respectively by yearend 2025. The weakening labor market presents notable downside risks to these 2025 forecasts.

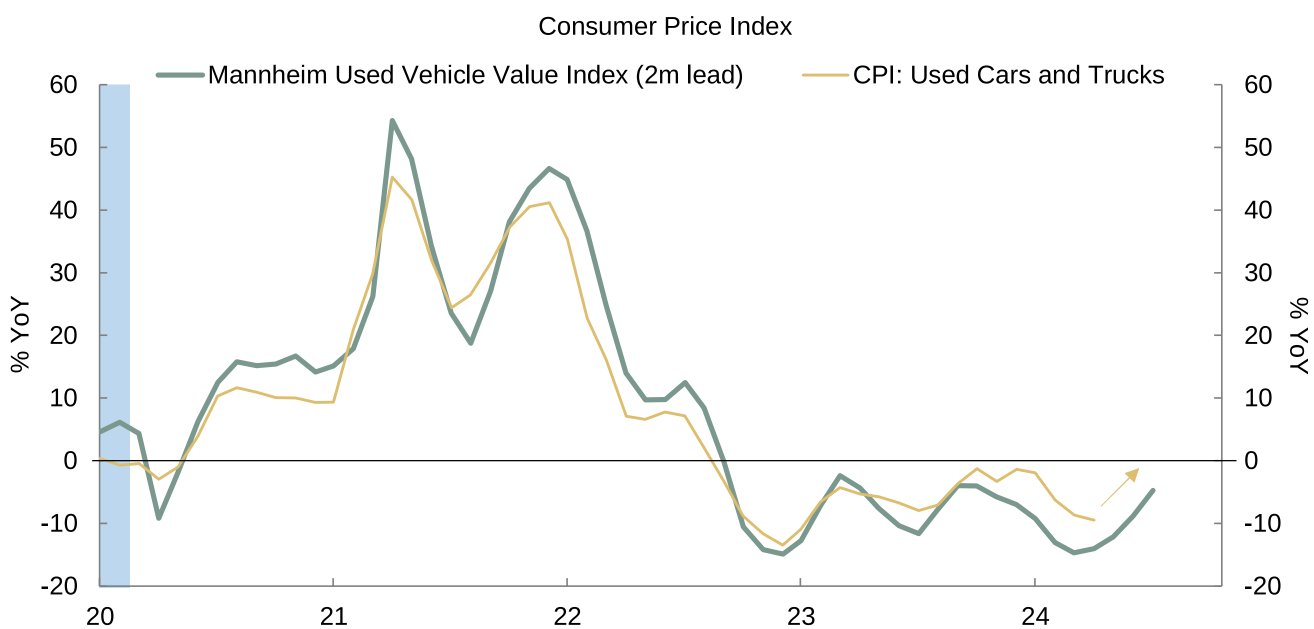


Source: BLS, Haver, SMBC Nikko

Inflation Breadth Has Collapsed…



Source: Federal Reserve Bank of Cleveland, Haver, SMBC Nikko



Source: Mannheim, BLS, Haver, SMBC Nikko

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