

US Daily: August CPI Preview (Abecasis/Hill)

- We expect a 0.24% increase in August core CPI (vs. 0.2% consensus), corresponding to a year-over-year rate of 4.30% (vs. 4.3% consensus). We expect a 0.63% increase in August headline CPI (vs. 0.6% consensus), which corresponds to a year-over-year rate of 3.58% (vs. 3.6% consensus).
- We highlight three key component-level trends we expect to see in this month's report. First, we expect a 3.1% decline in used car prices and a 0.2% decline in new car prices in August, reflecting lower used-car auction prices and continued increases in auto dealer promotional incentives. Second, we expect residual seasonality and higher airfares (+6%) to result in a 4.3% increase in public transportation prices this month. Third, we expect shelter inflation to remain roughly at its current pace (we forecast rent to increase by 0.40% and OER to increase by 0.48%), as the gap between rents for new and continuing leases continues to close.
- Going forward, we expect monthly core CPI inflation to remain in the 0.2-0.3% range in the next few months. We expect continued moderation in shelter inflation and lower used car prices to be offset by a swing in the CPI's health insurance component when the BLS incorporates new data and a methodological change in October. We forecast year-over-year core CPI inflation of 3.8% in December 2023 and 3.0% in December 2024.

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August CPI Preview

We expect a 0.24% increase in August core CPI (vs. 0.2% consensus), corresponding to a year-over-year rate of 4.30% (vs. 4.3% consensus). We expect a 0.63% increase in August headline CPI (vs. 0.6% consensus), reflecting higher food and energy prices. This corresponds to a year-over-year rate of 3.58% (vs. 3.6% consensus). Exhibit 1 provides a component-level summary of our forecast.

Exhibit 1: We Expect a 0.24% Increase in Core CPI in August

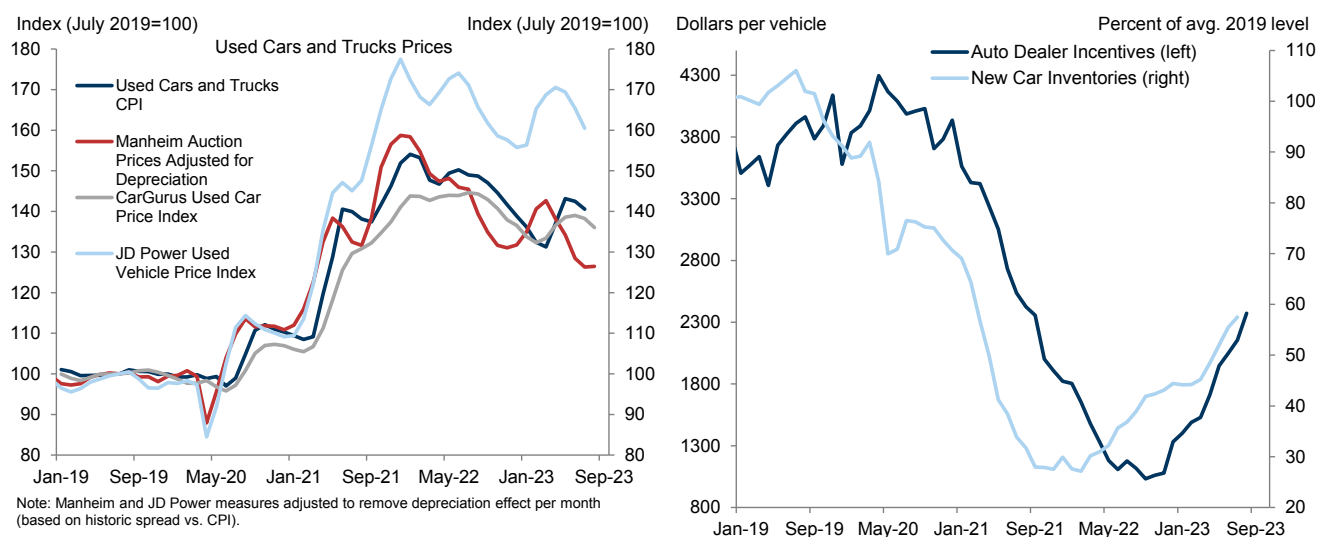
	Weight	Core CPI		
		3-Month Trend	July, MoM SA	August, MoM SA, GS Forecast
Core	100%	0.25%	0.16%	0.24%
Apparel	3%	0.2%	0.0%	0.3%
New cars	5%	-0.1%	-0.1%	-0.2%
Used cars	3%	0.9%	-1.3%	-3.1%
Motor vehicle parts	1%	-0.2%	-0.4%	0.0%
Medical care commodities	2%	0.5%	0.5%	0.4%
Tobacco	1%	0.4%	0.5%	0.2%
Rent of primary residence	10%	0.46%	0.42%	0.40%
Lodging away from home	2%	-0.2%	-0.3%	0.5%
Medical care services	8%	-0.16%	-0.40%	-0.10%
Public transportation	1%	-3.9%	-6.3%	4.3%
Transportation services ex-public	7%	0.4%	0.3%	1.1%
Pets	1%	0.1%	0.1%	0.2%
Recreation ex-pets	6%	0.1%	0.1%	0.1%
Education	3%	0.2%	0.3%	0.6%
Communication	4%	-0.3%	-0.1%	0.0%
Household furnishings and ops.	5%	-0.3%	-0.1%	0.0%
Personal care	3%	0.2%	0.0%	0.3%
Alcoholic beverages	1%	0.2%	0.1%	0.0%
Owners' equivalent rent	32%	0.49%	0.49%	0.48%
Residual (implicit)	3%			0.2%
Core Goods	27%	0.36%	-0.33%	-0.62%
Core Services	73%	0.34%	0.35%	0.40%
Core Services Ex-Housing	32%	0.11%	0.19%	0.35%

Source: Department of Labor, Goldman Sachs Global Investment Research

We highlight three key component-level trends for the August report:

1. Cars. We expect a 3.1% decline in used car prices in August, reflecting lower used-car auction prices this month (left-hand side of Exhibit 2). We expect a more moderate decline in new car prices (-0.2%), reflecting an increase in promotional dealer incentives and inventories (right-hand side of Exhibit 2). Going forward, we expect normalizing auto production, higher inventories, and higher new vehicle incentives to lead to further declines in used car inflation, although potential auto strikes pose some near-term upside risk to our forecast.

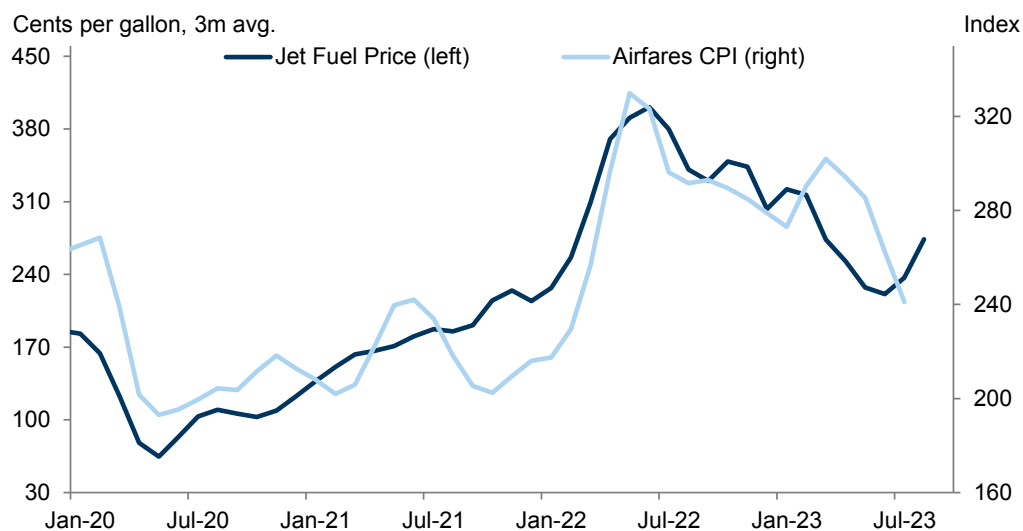
Exhibit 2: We Expect Used Car Prices to Fall in August, Reflecting Lower Used Car Auction Prices; We Also Expect New Car Prices to Decline as Dealer Incentives Continue to Increase



Source: Department of Labor, Manheim, CarGurus, JD Power, Autodata, Ward's, Department of Commerce, Goldman Sachs Global Investment Research

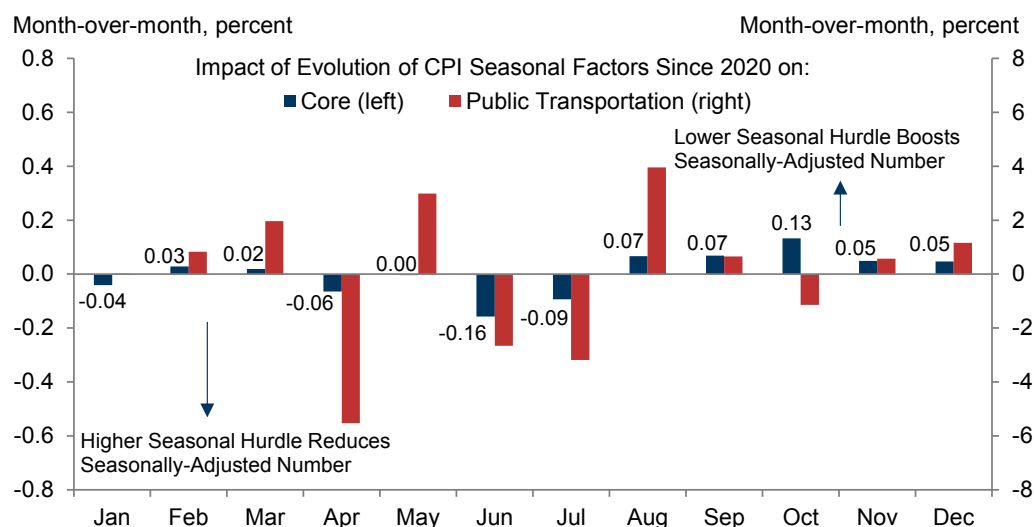
2. Public transportation. We expect public transportation prices to increase 4.3% this month, partly reflecting a 6% increase in airfares following the recent increase in jet fuel prices (Exhibit 3). We have also observed an increase in our airline team's real-time measure of airfares.

Exhibit 3: Higher Energy Prices Have Likely Boosted Airfares in August



Source: Department of Energy, Department of Labor, Goldman Sachs Global Investment Research

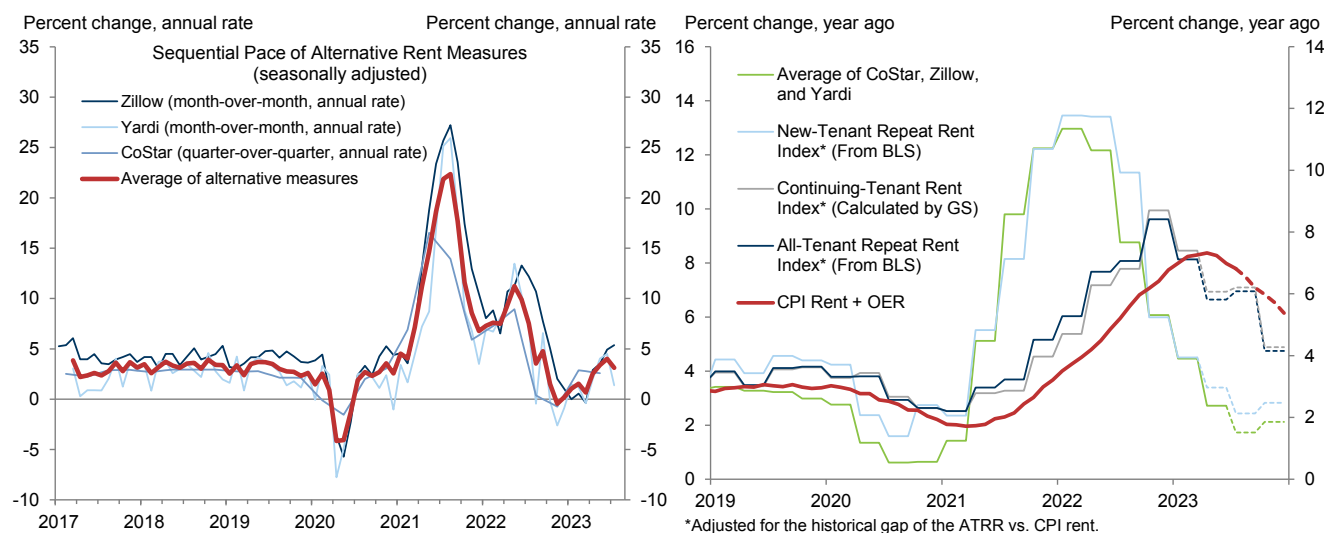
In addition, we expect residual seasonality to turn from a drag to a boost this month on public transportation prices, especially airfares, as the CPI seasonal factors are likely overfitting to the rebound in prices in the aftermath of the pandemic lockdowns (Exhibit 4).

Exhibit 4: Residual Seasonality Is Likely to Boost Core CPI and Especially Public Transportation Prices in August


Source: Department of Labor, Goldman Sachs Global Investment Research

3. Shelter. We expect shelter inflation to remain roughly at its current pace. Alternative measures of new-tenant rent growth decelerated in August (Exhibit 5), and we expect the rent component of CPI to increase by 0.40% this month (vs. 0.42% in July and 0.46% on average over the last three months). We also expect lower utilities prices over the last several months—which the BLS imputes and removes from owners' equivalent rent (OER)—to continue to boost OER relative to rent in August. As a result, we expect OER to increase by 0.48% this month. Going forward, we expect shelter inflation to slow to a +5% annualized rate by December 2023 (or +0.41% not annualized) and +3¾% (or +0.30% not annualized) by December 2024, as growing multifamily supply keeps new-lease rent growth subdued and the gap between new- and continuing-lease rents closes further.

Exhibit 5: We Expect CPI Shelter Inflation to Remain Roughly at Its Current Pace in August as the Gap Between Rents for New- and Continuing-Tenant Leases Continues to Narrow



Source: Zillow, Yardi, CoStar, Federal Reserve, Department of Labor, Goldman Sachs Global Investment Research

Elsewhere in the report, we expect a 1.6% increase in car insurance prices as carriers continue to offset higher repair and replacement costs. We also expect education prices to increase by 0.6% in August, as tuitions for the new school year will begin flowing through and are likely to exceed the normal increases expected by the seasonal factors.

Going forward, we expect monthly core CPI inflation to remain in the 0.2-0.3% range in the next few months. We expect continued moderation in shelter inflation and lower used car prices to be partially offset by a swing in the CPI's health insurance component when the BLS incorporates new data and a methodological change in October. We forecast year-over-year core CPI inflation of 3.8% in December 2023 and 3.0% in December 2024.

Exhibit 6: We Forecast Year-on-Year Core CPI Inflation of 3.8% in December 2023 and 3.0% in December 2024

	Weight	July 2023 YoY	GS Bottom-up CPI Forecast			
			Dec. 2023 YoY	Contribution to Change	Dec. 2024 YoY	Contribution to Change
Core CPI	100.0	4.7	3.8	-0.9	3.0	-1.7
Apparel	3.1	3.2	3.2	0.0	-0.2	-0.1
New Cars	5.4	3.5	-0.2	-0.2	-0.2	-0.2
Used Cars	3.5	-5.6	-8.6	-0.1	-4.0	0.1
Medical Care Commodities	1.8	4.1	5.0	0.0	2.1	0.0
Health Insurance	0.7	-29.5	-27.8	0.0	2.5	0.2
Medical Services ex Insurance	7.3	2.5	3.0	0.0	3.9	0.1
Pets	1.5	8.7	5.6	0.0	1.9	-0.1
Household Furnishings + Ops.	6.6	2.9	2.4	0.0	2.0	-0.1
Personal Care	2.8	6.1	5.3	0.0	2.9	-0.1
Rent + OER	41.7	7.7	6.1	-0.7	4.2	-1.5
Public Transportation	0.9	-13.2	-8.4	0.0	3.5	0.2
Private Transportation Services	6.5	13.2	10.0	-0.2	4.9	-0.5
Miscellaneous goods and services	18.2	6.2	5.1	-0.2	3.7	-0.5
Headline CPI	100.0	3.3	3.3	0.0	3.0	-0.3
Core CPI	79.6	4.7	3.8	-0.7	3.0	-1.4
Food	13.4	4.9	3.2	-0.2	3.4	-0.2
Energy	7.0	-12.3	-2.0	0.7	2.8	1.0

Source: Department of Labor, Goldman Sachs Global Investment Research

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