

## US Daily: August CPI Preview (Rindels/Walker)

- We expect a 0.23% increase in August core CPI (vs. 0.2% consensus), corresponding to a year-over-year rate of 3.17% (vs. 3.2% consensus). We expect a 0.18% increase in August headline CPI (vs. 0.2% consensus), which corresponds to a year-over-year rate of 2.56% (vs. 2.6% consensus). Our forecast is consistent with a 0.25% increase in CPI core services excluding rent and owners' equivalent rent and with a 0.22% increase in core PCE in August.
- Our August core CPI forecast is above the +0.13% average pace of the last three months. The softer readings in recent months were aided by large declines in the airfares component—which declined 3.4% on average—and the used cars component—which declined 1.1% on average. In August, we expect a pickup in airfares (+1.5%)—reflecting a boost from residual seasonality—and a more moderate decline in used car prices (-0.5%)—reflecting mixed auction prices.
- We highlight two additional key component-level trends we expect to see in this month's report. First, we expect another firm increase in car insurance prices, reflecting continued, albeit decelerating increases in premiums. Second, after last month's outsized increase, we expect shelter inflation to moderate, with owners' equivalent rent increasing 0.33% and primary rent increasing 0.29%.
- Going forward, we expect monthly core CPI inflation around 0.2% for the rest of the year. We see further disinflation in the pipeline in 2024 from rebalancing in the auto, housing rental, and labor markets, though we expect offsets from catch-up inflation in healthcare and car insurance. We forecast year-over-year core CPI inflation of 2.9% and core PCE inflation of 2.6% in December 2024.

**Jan Hatzius**

+1(212)902-0394 | jan.hatzius@gs.com  
Goldman Sachs & Co. LLC

**Alec Phillips**

+1(202)637-3746 | alec.phillips@gs.com  
Goldman Sachs & Co. LLC

**David Mericle**

+1(212)357-2619 | david.mericle@gs.com  
Goldman Sachs & Co. LLC

**Ronnie Walker**

+1(917)343-4543 | ronnie.walker@gs.com  
Goldman Sachs & Co. LLC

**Manuel Abecasis**

+1(212)902-8357 | manuel.abecasis@gs.com  
Goldman Sachs & Co. LLC

**Tim Krupa**

+1(202)637-3771 | tim.krupa@gs.com  
Goldman Sachs & Co. LLC

**Elsie Peng**

+1(212)357-3137 | elsie.peng@gs.com  
Goldman Sachs & Co. LLC

**Jessica Rindels**

+1(972)368-1516 | jessica.rindels@gs.com  
Goldman Sachs & Co. LLC

## August CPI Preview

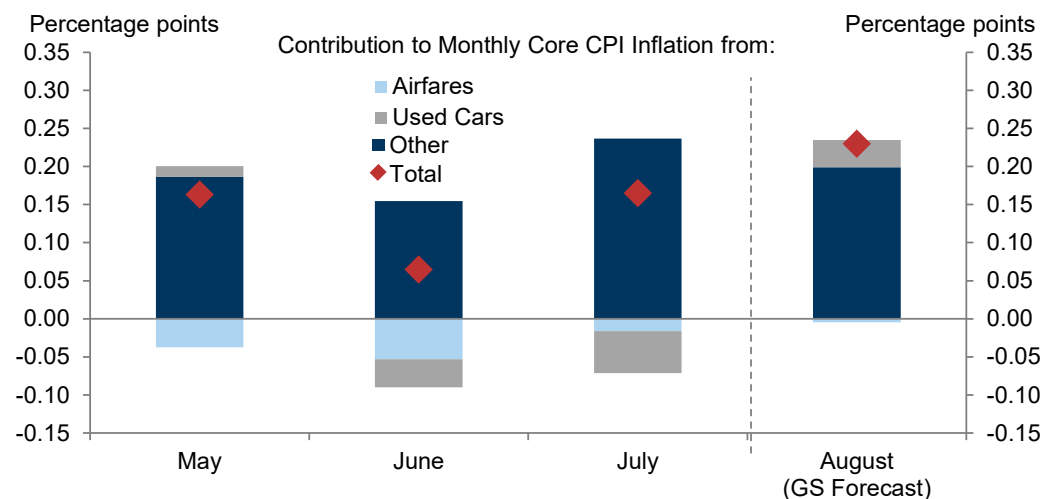
We expect a 0.23% increase in August core CPI (vs. 0.2% consensus), corresponding to a year-over-year rate of 3.17% (vs. 3.2% consensus). We expect a 0.18% increase in August headline CPI (vs. 0.2% consensus), which corresponds to a year-over-year rate of 2.56% (vs. 2.6% consensus). Our forecast is consistent with a 0.25% increase in CPI core services excluding rent and owners' equivalent rent. Exhibit 1 provides a component-level summary of our forecast.

**Exhibit 1: We Expect a 0.23% Increase in Core CPI in August**

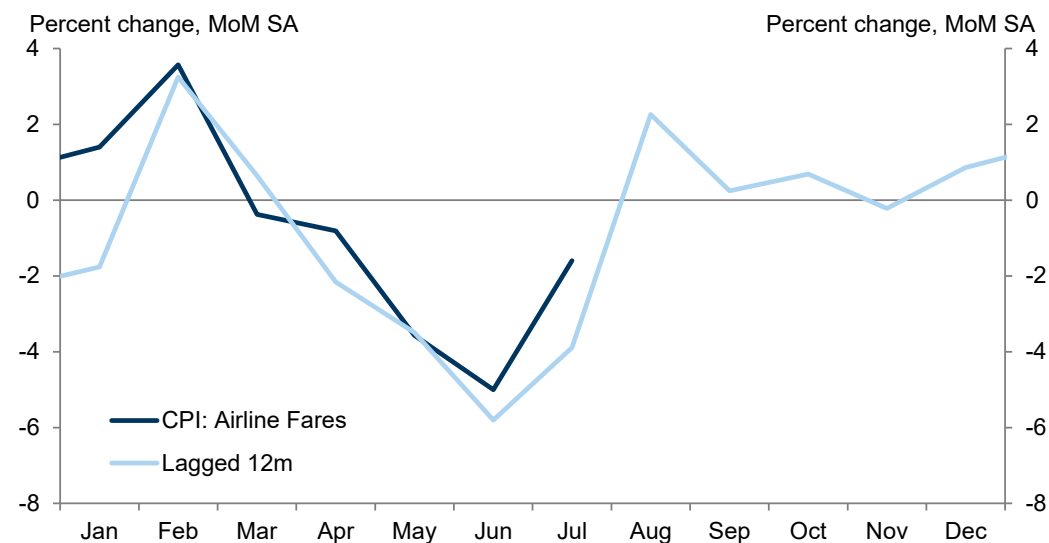
	Weight	Core CPI		
		3-Month Trend	July, MoM SA	August, MoM SA, GS Forecast
Core	100%	0.13%	0.17%	0.23%
Apparel	3%	-0.2%	-0.4%	0.2%
New cars	5%	-0.3%	-0.2%	-0.1%
Used cars	2%	-1.1%	-2.3%	-0.5%
Motor vehicle parts	1%	0.3%	0.3%	0.1%
Medical care commodities	2%	0.5%	0.2%	0.3%
Tobacco	1%	0.7%	0.2%	0.3%
Rent of primary residence	10%	0.38%	0.49%	0.29%
Lodging away from home	2%	-0.6%	0.2%	0.3%
Medical care services	8%	0.06%	-0.34%	0.22%
Public transportation	1%	-2.5%	-1.2%	1.2%
Transportation services ex-public	7%	-0.2%	0.4%	0.3%
Pets	1%	0.1%	-0.1%	0.2%
Recreation ex-pets	6%	0.0%	0.1%	0.1%
Education	3%	0.3%	0.3%	0.2%
Communication	4%	-0.1%	0.1%	0.1%
Household furnishings and ops.	5%	0.2%	0.3%	0.1%
Personal care	3%	0.1%	0.2%	0.2%
Alcoholic beverages	1%	0.2%	0.3%	0.1%
Owners' equivalent rent	34%	0.36%	0.36%	0.33%
Residual (implicit)	2%			0.2%
Core Goods	23%	-0.16%	-0.32%	0.03%
Core Services	77%	0.22%	0.31%	0.29%
Core Services Ex-Rent and OER	34%	0.04%	0.21%	0.25%
Implied NSA Headline Index Level	--	--	--	314.871

Source: Goldman Sachs Global Investment Research, Department of Labor

Our August core CPI forecast is above the +0.13% average pace of the last three months. Exhibit 2 shows that the softer readings in recent months were aided by large declines in the airfares component—which declined 3.4% on average—and the used cars component—which declined 1.1% on average. In August, we expect less disinflationary pressure from those two components. We expect used car prices to decline a more moderate 0.5%, as used car auction prices have been more mixed in recent months. We expect airfares to increase 1.5%, reflecting a boost from residual seasonality (Exhibit 3) and strength in our airline team's airfares panel.

**Exhibit 2: We Expect Airfares and Used Cars to Contribute Less to Disinflation in August**

Source: Goldman Sachs Global Investment Research, Department of Labor

**Exhibit 3: Seasonal Distortions Are Likely to Boost Airfares in August**

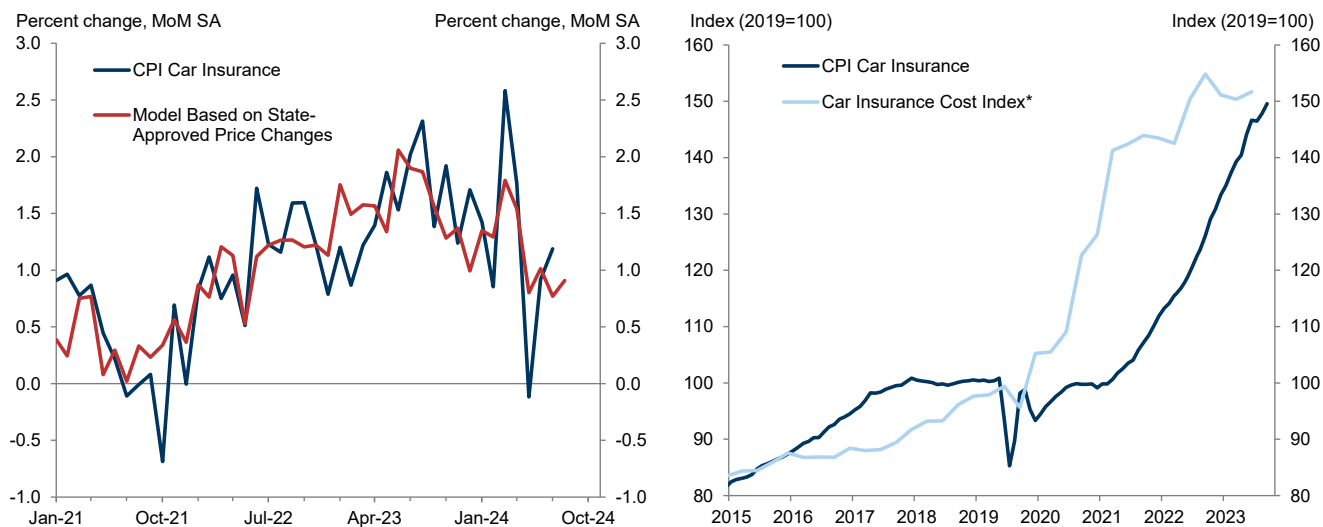
Source: Goldman Sachs Global Investment Research, Department of Labor

We highlight two other key component-level trends we expect to see in this month's report:

**1. Car insurance.** We expect another firm increase of 0.7% in car insurance prices in August, reflecting continued, albeit decelerating increases in premiums. This compares to a 1.2% average monthly pace so far in 2024. Higher car prices, repair costs, and medical and litigation costs have all put pressure on insurance companies to raise prices, but premiums have been passed onto consumers with a long lag in part because insurers have to negotiate price increases with state regulators. Most of the gap between insurance premiums and costs has now closed. As a result, we expect increase in CPI car insurance to return to the pre-pandemic pace next year. Car

insurance has a much smaller weight and is measured using different source data in the PCE index, so we do not expect these changes to have meaningful effects on PCE inflation.

#### Exhibit 4: State-Approved Price Changes Suggest Another Firm Increase in Auto Insurance Premiums



\* Weighted average of labor costs, used car prices from Manheim and JD Power, CPI car repair prices, and insurers' bodily and personal injury costs based on company data.

Source: Goldman Sachs Global Investment Research, Department of Labor

**2. Shelter.** After an outsized increase in July, we expect shelter inflation to moderate, with owners' equivalent rent increasing 0.33% and primary rents increasing 0.29%. Going forward, we believe that somewhat stronger rent growth for single-family homes will likely lead OER to outpace rent in the CPI. We expect overall shelter inflation to be running at a monthly pace around 0.3% by December 2024.

Elsewhere in the report, we expect modest boosts from a rebound in hospital services inflation following an outsized decline in July and a postage price hike that took effect in mid-July and wouldn't have been fully reflected in last month's report.

Our forecast is consistent with a 0.22% increase in core PCE in August (Exhibit 5). We will update our core PCE forecast after the CPI is released and again after the PPI is released.

**Exhibit 5: Our Core CPI Forecast Is Consistent with a 0.22% Increase in Core PCE in August**

Category	CPI		PCE	
	Forecast (% chg, MoM)	Weight (%)	Forecast (% chg, MoM)	Weight (%)
Apparel	0.20	3.17	0.20	3.07
New cars	-0.10	4.50	-0.10	2.18
Used cars	-0.50	2.37	-0.50	1.37
Motor vehicle parts	0.11	0.58	0.07	0.73
Medical care commodities	0.30	1.85	0.30	3.90
Tobacco	0.32	0.69	0.32	0.68
Rent of primary residence	0.29	9.62	0.29	3.94
Lodging away from home	0.30	1.88	0.30	1.20
Medical care services	0.22	8.13	0.26	18.62
Public transportation	1.19	1.32	0.50	1.68
Transportation services ex-public	0.32	6.79	0.21	1.99
Pets	0.20	0.55	0.11	0.65
Recreation ex-pets	0.10	5.87	-0.08	9.33
Education	0.25	3.19	0.24	2.01
Communication	0.10	3.76	0.11	1.82
Household furnishings and ops.	0.05	5.29	-0.04	3.45
Personal care	0.24	3.19	0.21	2.26
Alcoholic beverages	0.14	1.06	0.15	2.25
Owners' equivalent rent	0.33	33.69	0.33	13.44
Financial services			0.29	8.20
Residual (implicit)	0.20	1.98	0.34	17.22
<b>Core Goods</b>	<b>0.03</b>	<b>23.2</b>	<b>0.07</b>	<b>25.4</b>
<b>Core Services</b>	<b>0.29</b>	<b>76.8</b>	<b>0.27</b>	<b>74.6</b>
<b>Core Services Ex-Housing</b>	<b>0.25</b>	<b>33.5</b>	<b>0.25</b>	<b>57.3</b>
<b>Core</b>	<b>0.23</b>	<b>100.0</b>	<b>0.22</b>	<b>100.0</b>

Source: Goldman Sachs Global Investment Research, Department of Labor

Going forward, we expect monthly core CPI inflation of around 0.2% for the rest of the year. We see further disinflation in the pipeline in 2024 from rebalancing in the auto, housing rental, and labor markets, though we expect offsets from catch-up inflation in healthcare and car insurance. We forecast year-over-year core CPI inflation of 2.9% and core PCE inflation of 2.6% in December 2024.

**Exhibit 6: We Forecast Year-Over-Year Core CPI Inflation of 2.9% in December 2024**

	Weight	GS Bottom-up CPI Forecast				
		Jul. 2024	Dec. 2024		Dec. 2025	
		YoY	YoY	Contribution to Change	YoY	Contribution to Change
<b>Core CPI</b>	<b>100.0</b>	<b>3.2</b>	<b>2.9</b>	<b>-0.3</b>	<b>2.3</b>	<b>-0.9</b>
Apparel	3.2	0.2	1.0	0.0	0.5	0.0
New Cars	4.5	-1.0	-2.4	-0.1	-0.7	0.0
Used Cars	2.4	-10.3	-9.6	0.0	-3.3	0.2
Medical Care Commodities	1.9	2.8	2.7	0.0	3.8	0.0
Health Insurance	0.7	-0.6	3.3	0.0	-1.9	0.0
Medical Services ex. Insurance	7.4	3.6	3.6	0.0	3.8	0.0
Pets	1.3	1.9	2.1	0.0	0.4	0.0
Household Furnishings + Ops.	5.6	-0.4	-0.6	0.0	-0.3	0.0
Personal Care	3.0	3.4	3.2	0.0	2.4	0.0
Rent + OER	43.3	5.3	4.5	-0.3	3.0	-1.0
Public Transportation	1.3	-2.2	-3.7	0.0	1.3	0.0
Private Transportation Services	6.8	11.0	8.4	-0.2	4.9	-0.4
Misc. Goods and Services	18.7	4.0	3.7	-0.1	2.7	-0.2
<b>Headline CPI</b>	<b>100.0</b>	<b>2.9</b>	<b>2.6</b>	<b>-0.3</b>	<b>2.2</b>	<b>-0.7</b>
Core CPI	79.6	3.2	2.9	-0.3	2.3	-0.7
Food	13.4	2.2	2.2	0.0	2.5	0.0
Energy	6.9	1.0	0.1	-0.1	0.1	-0.1

Source: Goldman Sachs Global Investment Research, Department of Labor

**Jessica Rindels****Ronnie Walker**

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