Gasoline Lights the Headline, Shelter Lights the Fuse

August's inflation numbers were no worse than expected, but no better either. The headline 0.4% increase was gasoline's doing. Core prices cooled to 2.4% over the year but firmed to 0.3% on the month, and for the first time since we set our hold call's falsifiable test in July, shelter and core services outside housing both moved the wrong way at once.

Mark P. Vitner, Chief Economist | Piedmont Crescent Capital | September 11, 2026

Early Signals

- **The underlying trend ticked up for the first time in four months, ending three straight monthly declines (May, June, July), though it remains close to the cycle low.**
- **Gasoline did almost all of the headline's work.** The all items index rose 0.4% in August, its fastest pace since May, after rising just 0.1% in July. Gasoline rose 3.9% on the month and, per BLS, accounted for over a third of the increase on its own. Energy overall rose 2.1% and is up 16.3% over the year.
- **Shelter and core services outside housing both re-accelerated. Shelter rose 0.3% in August, matching May's pace, after rising just 0.1% in July, even as its 12-month rate eased to 3.0% from 3.2% on favorable base effects. Services less rent of shelter rose 0.3%, a third straight acceleration from 0.0% in June and 0.2% in July.**
- **Real wages fell for a second straight month.** Real average hourly earnings declined 0.1% in August and are down 0.3% over the year, as a 0.3% nominal wage gain was outrun by the 0.4% rise in the CPI-U.

Key Takeaways

Key Concept	Findings
Headline CPI	Rose 0.4% in August after rising 0.1% in July. The 12-month rate held at 3.4%, matching July and roughly in line with consensus.
Energy	Up 2.1% on the month as gasoline rose 3.9%, reversing July’s 1.5% decline. Up 16.3% over the year with gasoline up 27.4%.
Core CPI	Rose 0.3% after rising 0.2% in July, easing the annual rate to 2.4% from 2.5%. Core goods are up just 0.7% over the year.
HP-Filtered Trend	Our one-sided estimate of trend core inflation rose to

	2.55% from 2.51%, its first increase since April. Core CPI has risen at a 2.01% annual rate over the past three months, up from 1.64% in July.
Shelter	Up 0.3% in August, the fastest since March, though the 12-month rate eased to 3.0% from 3.2%. Owners' equivalent rent and rent both rose 0.2%.
Light Vehicles	New vehicles up 0.3% (+0.6% over the year), used vehicles up 0.4% (-2.3%), and motor vehicle insurance down 0.8% (-5.1%).
Real Earnings	Real average hourly earnings fell 0.1% in August and are down 0.3% over the year. Real weekly earnings rose 0.2% as the workweek lengthened.
Policy Signal	We are changing the call. Our analysis has not changed: the case for a hold is intact, but we now expect the Committee to hike anyway on September 16 and then hold in October, since markets have priced high odds of a move and the Fed has shown little appetite to surprise them this cycle.

The Overview

August's inflation report arrived hotter on the headline and cooler on the year for core, an unusual combination that gives both hawks and doves something to point to. The all items index rose 0.4% in August, its fastest monthly pace since May, after rising just 0.1% in July. The move was concentrated almost entirely in energy: gasoline prices rose 3.9% on the month, and BLS attributes more than a third of the headline's increase to gasoline alone. Core prices, which exclude food and energy, rose 0.3% in August after a 0.2% rise in July, close to the roughly 0.4% consensus estimate but below it, and nearer Wells Fargo's below-consensus 0.23% call. The 12-month core rate eased to 2.4% from 2.5%, continuing almost a year of gradual moderation.

A report that runs hot on the headline and cooler on the year rarely resolves anything, and this one is no exception. It lands one week before the Committee meets, with futures markets, by some accounts, pricing meaningful odds of a move at that meeting, a read that sits uneasily against a core print that came in below consensus on the month. We think the report is more supportive of our hold call than the headline number suggests, but two developments inside it, detailed below, are the first real test of the trip-wire we set in July.

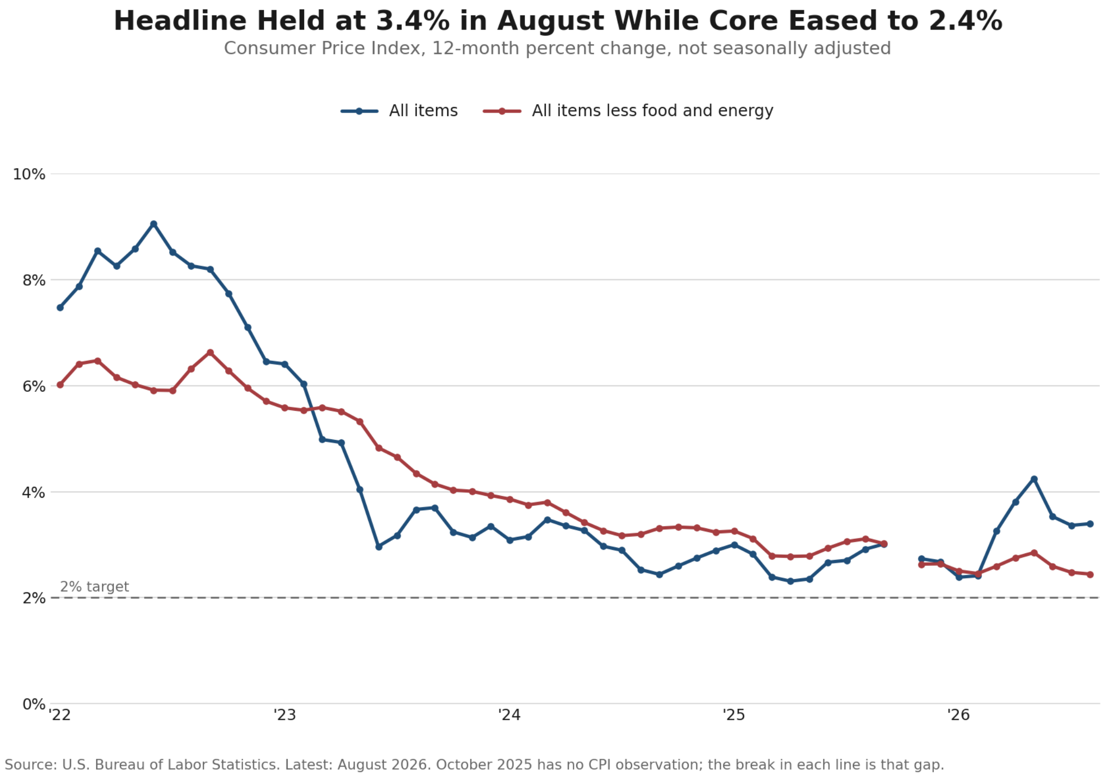

Exhibit 1. Headline inflation held at 3.4% in August while the core rate eased to 2.4%.

Energy Sets the Headline, Again

The energy index rose 2.1% in August after falling 1.5% in July, entirely reversing course. Gasoline prices rose 3.9% on a seasonally adjusted basis (2.5% before adjustment) and are up 27.4% over the year. Fuel oil (a thin, volatile series, but the earliest read we get on winter heating costs) jumped 10.1% in August after a 1.7% decline in July, and is up 52.0% over the year. Natural gas (-1.1%) and electricity (-0.2%) both fell. The food index rose just 0.1%, as a 6.2% drop in lettuce prices offset gains in eggs (+2.9%) and dairy (+0.3%).

Core Inflation: A Firmer Month, A Cooler Year

The core index rose 0.3% in August after rising 0.2% in July, lowering the annual rate to 2.4% from 2.5%. Core goods showed little pricing power, up just 0.1% on the month and 0.7% over the year, as new vehicles (+0.3%), used vehicles (+0.4%) and apparel (unchanged) barely moved. The firming sat almost entirely in services.

Services less rent of shelter, our cleanest read on core services outside housing and the number we said in July we would be watching, rose 0.3% in August, a third consecutive acceleration from 0.0% in June and 0.2% in July. Transportation services rose 0.5%, its own third straight acceleration (-0.3% in June, +0.3% in July), and airline fares rose 2.7% for a second month above 2%, after +2.2% in July. None of these is yet at the '0.4% for two or three months' pace that would confirm our trip-wire, but the direction, for the first time since we set it, is uniformly the wrong way.

The Underlying Trend: Our HP-Filter Read

Our HP-filtered estimate of trend core inflation rose to 2.55% in August from 2.51% in July, its first increase in four months, following declines in May, June and July. It remains close to the cycle low and well below the 3.39% reading from a year ago, but the direction changed for the first time since our July report described the trend as 'grinding lower.' Core CPI has risen at a 2.01% annualized rate over the past three months, up sharply from 1.64% in July, though still below its 12-month pace of 2.46%.

The alternative measures we track agree the level is low and disagree mainly about direction. The Cleveland Fed's median and 16% trimmed-mean CPI stood at 2.69% and 2.60% in July, little changed from June's 2.71% and 2.63%, however, and both released with a lag against this morning's CPI. The Dallas Fed's trimmed-mean PCE was 2.28% in July, up slightly from 2.26% in June. All four measures remain clustered in a narrow band just above 2.5%, a level none of them has meaningfully broken in either direction since spring.

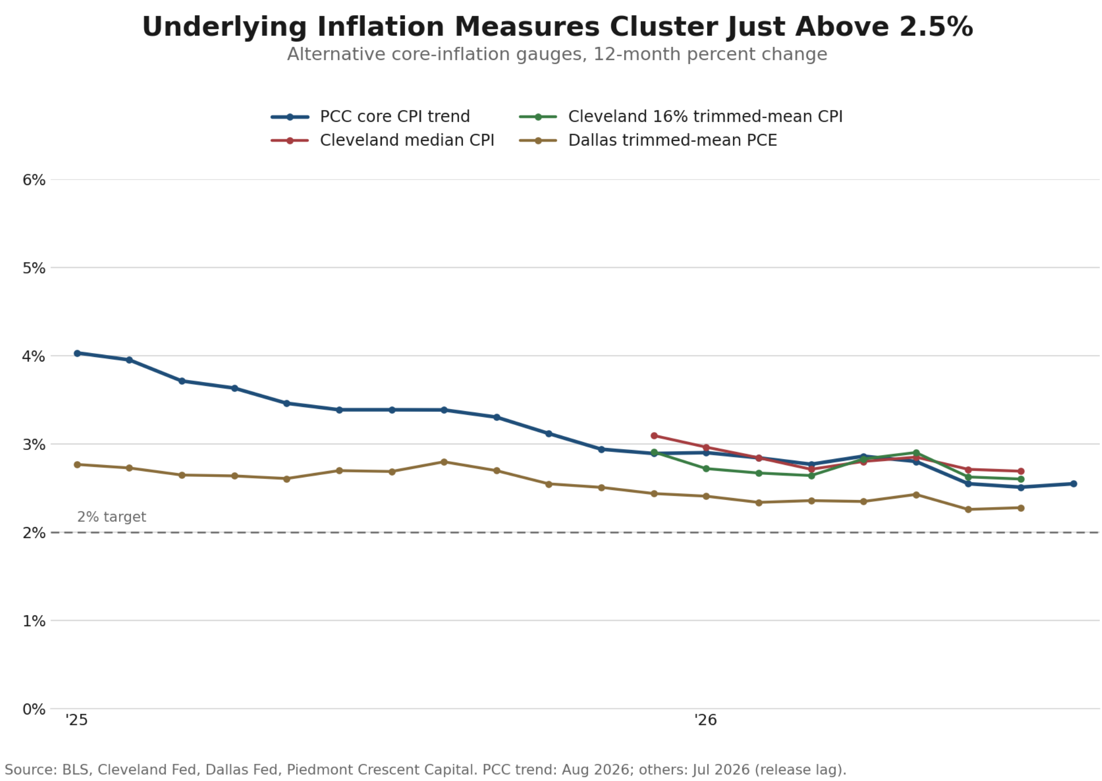

Exhibit 2. Every measure of underlying inflation we track is still clustered just above 2.5%.

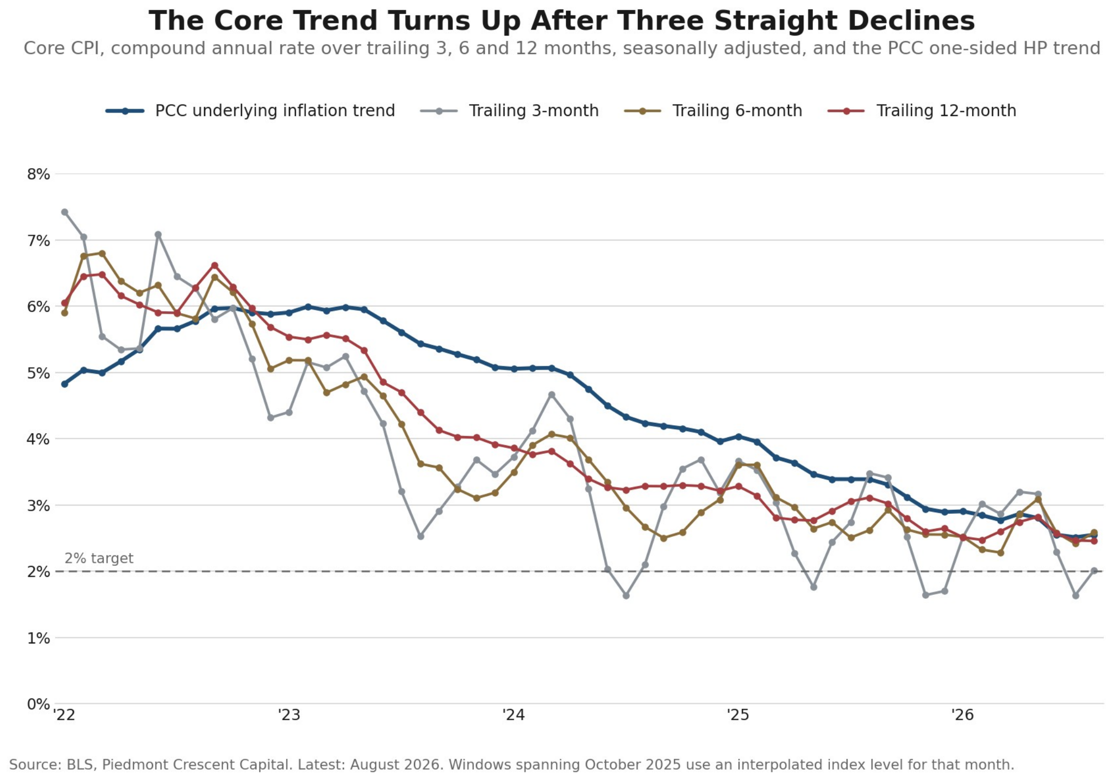

Exhibit 3. The trend estimate turned up in August after three straight monthly declines.

Methodology note. We apply a one-sided Hodrick-Prescott filter to monthly annualized inflation with the standard monthly smoothing parameter (λ = 129,600), computed on seasonally adjusted CPIAUCSL and CPILFESL from a 2000 sample start. The one-sided implementation uses only data available through the current month, so the estimate is real-time and does not revise as future data arrive. October 2025 has no CPI observation because of the 2025 lapse in appropriations; we interpolate the index level geometrically between September and November, which moves the trend estimate by less than a basis point. August's core CPI index level is not yet published by FRED as of this writing; we estimate it from July's confirmed level and the BLS-published seasonally adjusted monthly change, and will true it up against FRED's own figure once posted.

Shelter and Light Vehicles: The Transmission Channels Wobble

Housing and light vehicles, the two channels that carry monetary policy to consumer prices, both moved against the case for further moderation this month, modestly, but for the first time in a while. Shelter rose 0.3% in August, matching May's pace, after rising just 0.1% in July. Owners' equivalent rent and rent of primary residence each rose 0.2%, in line with recent months, and lodging away from home swung from -2.8% in July to +2.4% in August, a volatile line item that likely accounts for some of the acceleration. Shelter's 12-month rate eased to 3.0% from 3.2% as a strong August 2025 print rolled out of the comparison, a reminder that the year-over-year number can improve even as the freshest monthly reading worsens.

New vehicle prices rose 0.3% (+0.6% over the year), used vehicles rose 0.4% and remain down 2.3% over the year, and motor vehicle insurance fell 0.8% in August and is down 5.1% over the year, now the steepest annual decline of any major category we track. Between the two channels, vehicles are still doing the disinflationary work; shelter, this month, was not.

Travel and Transportation: The Forward-Looking Signal

Three categories in this release are worth watching less for what they say about August than for what they say about the months ahead. Airline fares rose 2.7% in August, a second consecutive month above 2% after a slow spring, and are up 23.4% over the year, among the largest annual increases of any category in the index. Transportation services broadly rose 0.5%, a third straight monthly acceleration from -0.3% in June. Fares and transportation services both tend to move with discretionary travel demand and fuel-cost pass-through before that shows up elsewhere, so two straight strong prints are a genuine signal.

Fuel oil's 10.1% August jump, its largest monthly gain since spring, is the earliest data point we will get on heating costs heading into the fourth quarter. It is a volatile series (it fell 9.2% in the May-June window alone), so one month should not be treated as destiny, but it moved the same direction as crude oil, which has traded closer to $100 a barrel in recent weeks. We will be watching the September and October prints closely.

Real Earnings: The Squeeze Continues

The companion release showed a second straight month of real wage erosion. Real average hourly earnings for all employees fell 0.1% in August and are down 0.3% over the year, as a 0.3% nominal gain in average hourly earnings was more than offset by the 0.4% rise in the CPI-U. Real average weekly earnings rose 0.2% only because the average workweek lengthened by 0.3%; on an hourly basis, workers lost ground for a second straight month. Production and nonsupervisory employees, whose earnings are deflated by the CPI-W (+0.5% in August, which carries more weight on gasoline and food), fared about as poorly: real hourly earnings fell 0.1% and are down 0.1% over the year.

Nominal average hourly earnings are up 3.1% over the past year, against a 3.4% rise in headline consumer prices and a 2.4% rise in core. Wage growth now trails the headline but has pulled back ahead of core, a reversal from where the two stood a year ago.

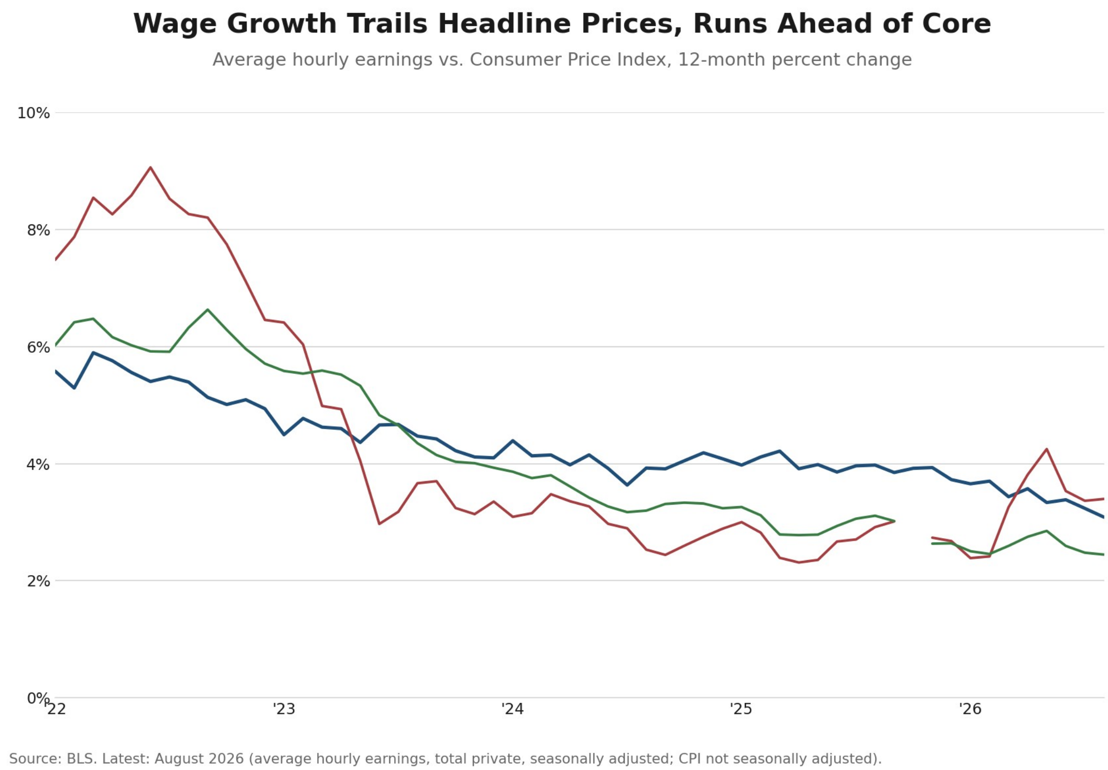

Exhibit 4. Wage growth now trails headline prices but runs ahead of core.

What Households and Markets Expect

Households held roughly steady in the New York Fed's August Survey of Consumer Expectations, which put median one-year household inflation expectations unchanged at 3.6% and five-year expectations unchanged at 3.0%; the three-year measure eased a tenth to 3.2%. The same survey showed a sharper deterioration in labor-market sentiment: the average probability that unemployment will be higher in a year rose to 44.4%, its highest reading since April 2020, a reminder that households are more worried about jobs than prices right now.

The University of Michigan's preliminary September survey, released today, was weaker. Its sentiment index fell to 47.8 from a final 51.7 in August, below the 51.0 consensus. Both of its inflation-expectations gauges moved the wrong way: year-ahead expectations rose to 4.6% from 4.0%, and long-run expectations firmed to 3.4% after three straight months at 3.3%. The two household surveys read differently this week, NY Fed steady, Michigan sharply worse, and neither lets the Fed treat inflation expectations as settled.

Markets are calmer than households, and little moved by this report. The five-year, five-year forward inflation compensation rate stood at 2.34% on September 10, and the 10-year breakeven at 2.40%, both essentially where they have sat for weeks. Neither measure suggests markets see this month's firmer core print as the start of a new trend.

OUR CALL

We are changing our call. Our view of the right policy has not moved: the case we laid out in July, that underlying inflation is moderating and policy is already doing its job through housing and vehicles, is intact after this report and, on the 12-month core rate, a little stronger. We still think the Committee should hold the federal funds rate at 3.50% to 3.75% on September 16, but we now expect them to hike anyway, to 3.75% to 4.00%, and then hold at the October 27-28 meeting.

Markets currently assign an 88% probability to a September move, and a Committee that has spent this cycle trying not to surprise investors is more likely to follow pricing that one-sided than fight it a week out. We have also been expecting the Committee's next move to be a hike rather than a cut: normalizing policy away from an emergency-era stance means rates settle higher, and manufacturing hiring has kept improving even as the sector's order book cooled in August, one more piece of evidence pulling the same direction. None of this is the outcome we would choose, but a September hike still strikes us as directionally sound, just early.

The report itself argues for patience. Real wages are still falling, which cuts against a demand-side inflation story, and the two transmission channels remain net disinflationary even after this month's wobble: vehicles more than offset shelter, on balance. Core goods barely moved, and the alternative underlying-inflation measures we track are all still clustered just above 2.5%. A single quarter-point move followed by an October hold is a small deviation from what the data call for, and the falsifiable test we set in July, two or three more months of core services less shelter near 0.4% with shelter no longer decelerating, still stands as the real signal to watch.

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Appendix: Trend Inflation Estimates

Measure	Latest	Prior month
PCC HP-filter trend, core CPI (one-sided, λ=129,600)	2.55% (Aug)	2.51% (Jul)
PCC HP-filter trend, headline CPI	2.89% (Aug)	2.78% (Jul)
Core CPI, compound annual rate over three months	2.01% (Aug)	1.64% (Jul)
Core CPI, compound annual rate over six months	2.59% (Aug)	2.42% (Jul)
Cleveland Fed median CPI (12-month percent change)	2.69% (Jul)	2.71% (Jun)
Cleveland Fed 16% trimmed-mean CPI (12-month percent change)	2.60% (Jul)	2.63% (Jun)

Dallas Fed trimmed mean PCE (12-month rate)	2.28% (Jul)	2.26% (Jun)
Core CPI, official 12-month	2.4% (Aug)	2.5% (Jul)

Computation notes: HP-filter estimates were computed on seasonally adjusted FRED series (CPIAUCSL, CPILFESL) through July 2026 (confirmed) plus August 2026, sample from 2000, one-sided recursive expanding-window implementation, λ = 129,600, applied to monthly annualized inflation. August's headline SA index level (334.131) is the preliminary figure published in BLS's Real Earnings, August 2026 release (Table A-1); no equivalent official SA level for core CPI has been published, so August's core level is estimated from July's confirmed FRED level (336.789) and the BLS-published seasonally adjusted monthly change (+0.3%). October 2025 has no CPI observation; the index level is interpolated geometrically between September and November 2025, which moves the trend estimate by less than a basis point. Cleveland Fed values are 12-month percent changes of the published median and 16% trimmed-mean indexes through July 2026; the Cleveland Fed's August readings are released later on CPI day and are not reflected here. Dallas Fed trimmed mean PCE is the published 12-month rate through July 2026.

Sources: U.S. Bureau of Labor Statistics, Consumer Price Index and Real Earnings, August 2026; Federal Reserve Bank of Cleveland, median and 16% trimmed-mean CPI; Federal Reserve Bank of Dallas, trimmed mean PCE; Federal Reserve Bank of New York, Survey of Consumer Expectations, August 2026; Federal Reserve Bank of St. Louis (FRED); Piedmont Crescent Capital calculations.