US Economy

11 September 2026

Higher than expected CPI tips the balance for a September Fed hike

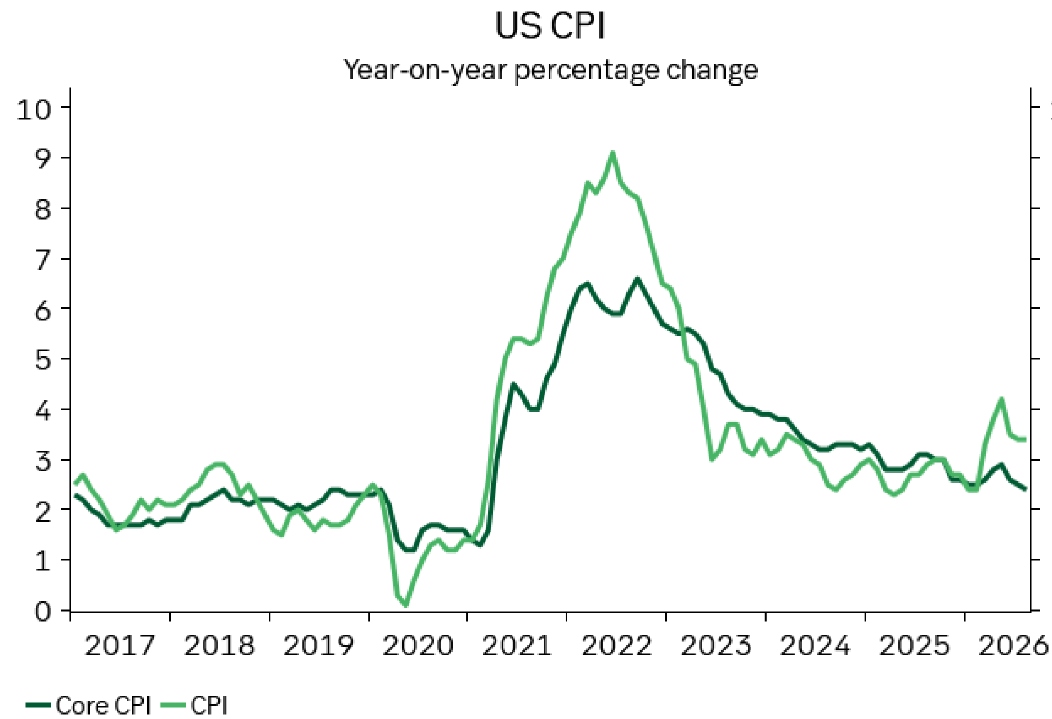
August core CPI surprised on the upside for a 0.3% m/m increase, beating the consensus (0.2% m/m) and raising some question marks about the degree of improvement in the underlying inflation trend. Given the recent strong emphasis within the Fed on the monthly data, we shift our forecast and now expect a 25 bp hike in September. The details were not all bad, but the conclusion for the core PCE still points to another 0.3% m/m increase, though the upcoming revision of this data is an uncertain factor.

Key points

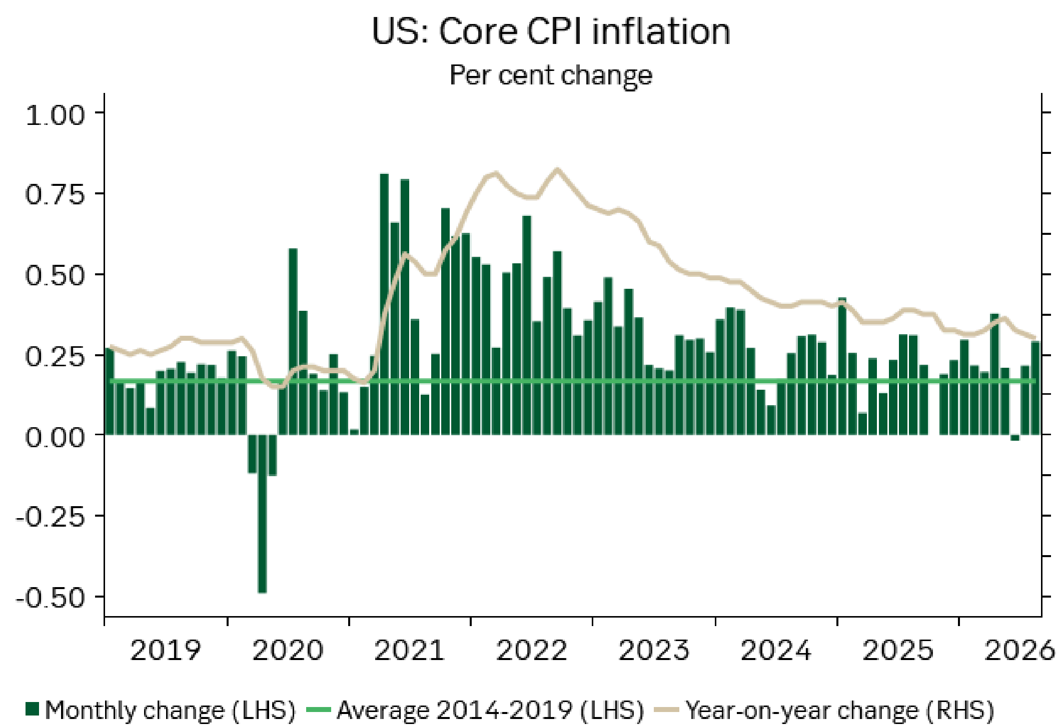
- Headline CPI 0.4%, 3.4%, in line with consensus
- Core CPI 0.3%, 2.4%, above the consensus
- Preliminary estimates points to a 0.3% m/m for core PCE
- September revision is an uncertain factor for the PCE, however
- A September rate hike is now the main scenario
- Markets price nearly 90% probability for a hike

August CPI is a disappointment for the Fed

August CPI inflation was a disappointment for the Fed after a couple of benign summer months. The core ex energy and food CPI exceeded expectations at 0.3% m/m (consensus 0.2%), though on the lower side (0.29%). The y/y rate declined by 0.1%-point to 2.4%, as expected. Total CPI increased as expected 0.4%, 3.4% on the back of renewed increases in energy prices and marginally higher prices on food.



Source: U.S. Bureau of Labor Statistics (BLS), Macrobond, SEB



Source: U.S. Bureau of Labor Statistics (BLS), Macrobond, SEB

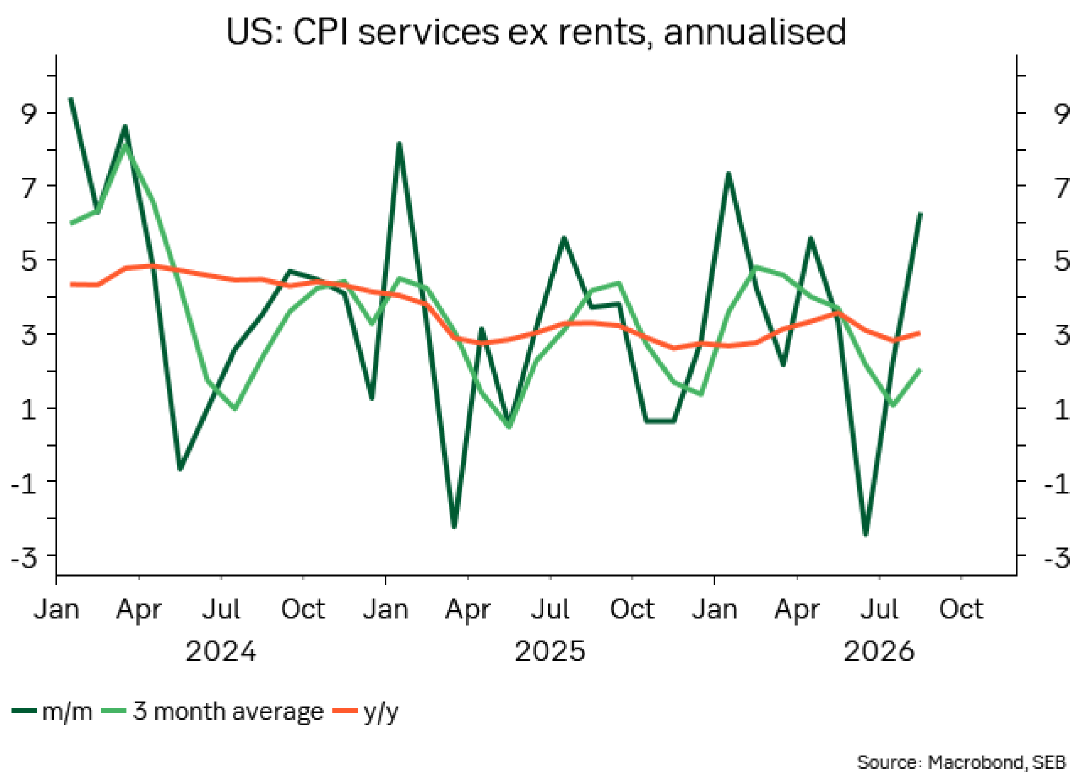
The details were not all bad. Volatile components like communication, lodging away from home, airline fares, education and used cars and trucks were behind the faster price increases, while medical care and motor vehicle insurance worked in the other direction.

Slowdown in goods prices

Goods prices were marginally lower than we expected. Core goods prices slowed to 0.1% m/m (July 0.2%), even as vehicle prices increased faster (used cars 0.4% for the second consecutive month, new vehicles 0.3%, up from 0.1% in July). Prices on IT goods slowed to a mere 0.1% m/m. These prices have come into focus given upward pressures on imported IT equipment due to the AI expansion, but in August the category that is most affected, computer and accessories, actually fell by 2.2%. This index has inflated core PCE compared to core CPI by 0.2-0.3%-points because of a significantly larger weight. Changes to the methodology in the upcoming 30 September revision makes it harder to assess the impact on August PCE, however.

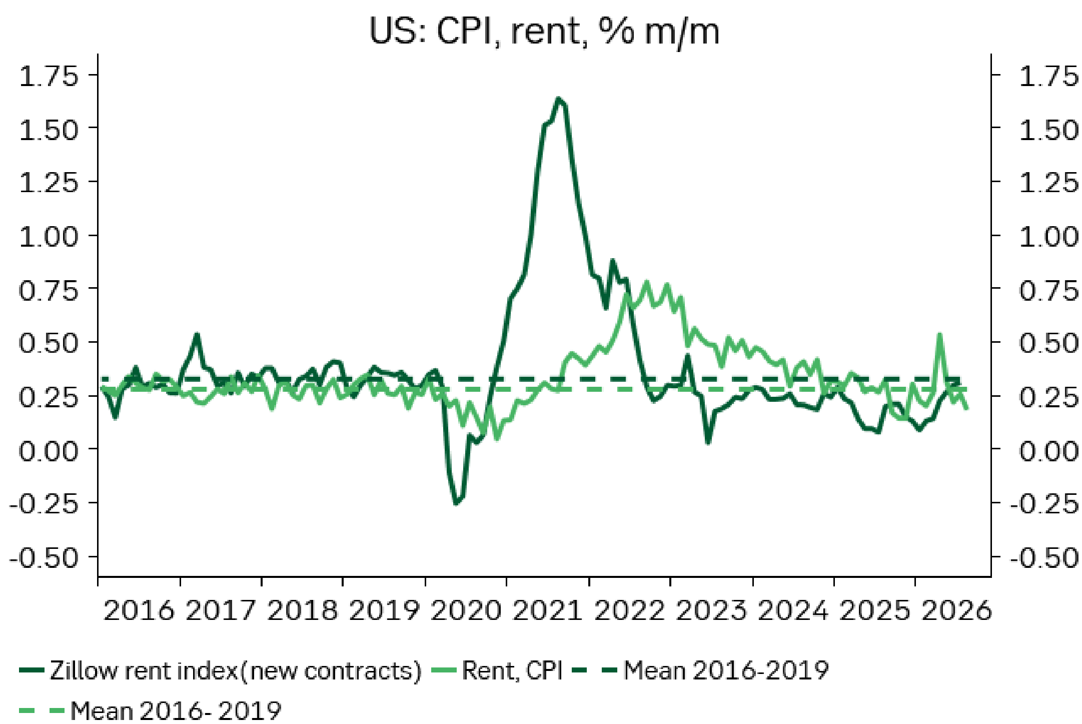
Rising prices on tourist services

Prices on hotels and air tickets stand out and increased by 2.4% and 2.7% respectively. However, tourist services are volatile. Hotel prices fell in both June and July, which makes it hard to judge the underlying trend.



Slower rents increases

Rents slowed from July and were marginally lower than expected and also slightly below the historical trend. Market rents, as measured by Zillow have picked up recently from very low levels, which is a reason to be cautious about extending the favorable trend for rents. Services prices ex rents were high, however, after a weak reading in July.



Source: Zillow, Macrobond, SEB

Another too high monthly increase for core PCE but revisions are an uncertain factor

Our preliminary estimate for the August core PCE points to another too high 0.3% m/m, at least before the revised methodology that will be introduced later this month for IT and legal and financial services. Current expectations are that the revisions may lower the PCE by a couple of tenths of percentage points but this would still mean an elevated, around 3% core PCE y/y.

Not good enough even for Fed doves

Fed Chair Warsh committed strongly to the Fed doing what it takes to get inflation back to target in his Jackson Hole speech. Several other Fed members said they were willing to wait for more proof of improvement in the underlying inflation trends after a couple of better inflation readings during the summer. Still, also these members have warned that they are getting closer to a point when the Fed needs to act, while Warsh concluded that he did not see the summer data as a “meaningful” change in the underlying trend.

Rate hike in September is now the main scenario

Market pricing for a September hike moved from almost 70 to nearly 90% after the data. This puts heavy pressure on the Fed to deliver a hike to bolster its inflation credibility. We are now changing our forecast for the 15-16 September meeting to a 25 bp hike to a range of 3.75-4.00%. Higher energy prices, back above USD 100/bl, is an upside risk going forward. Waiting until the next meeting at 27-28 could put the Fed in a difficult situation, given the proximity to the midterm elections on November 3.

Warsh has been very clear that it is the responsibility of the Fed to make sure that inflation returns to target. He has been equally clear that the Fed should not signal its next step. This means that the Fed should now be data dependent and taking its decision on a meeting-by-meeting basis. Inflation data during the fall will be key for whether the Fed can stop at one hike to safeguard credibility. We continue to see scope for renewed disinflation once the temporary effects from tariffs, energy and, to some extent, AI on IT, pass. Whether the Fed will get enough evidence on this in the coming months is uncertain, however. Continued upward pressure on yields will work in the other direction, with markets now doing some of the job for the Fed. Markets are already pricing a succession of rate hikes until mid-year 2026 and the Fed must now hope that delivering a hike could calm market doubts of the Fed's willingness to do what it takes.

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