

U.S. Inflation Accelerated in August as Gasoline Prices Jumped

Mild price pressures excluding energy keep Fed on track to pause rate increases next week

*By Amara Omeokwe and Nick Timiraos
Wall Street Journal*

Consumer prices rose in August at the fastest pace in more than a year due to a jump in energy costs, illustrating the [potential obstacles to wringing inflation out](#) of the economy without a sharper slowdown.

The consumer-price index, a closely watched inflation gauge, rose 0.6% in August from the prior month, the Labor Department reported Wednesday. More than half of the increase was due to higher gasoline prices.

So-called core prices, which exclude volatile food and energy items, rose by a relatively mild 0.3% last month after even lower readings in June and July. The August increase reflected higher costs for items such as airfares and vehicle insurance.

The monthly core reading likely keeps [Federal Reserve officials](#) on course to hold interest rates steady at their meeting next week without resolving a bigger debate over whether they will need to raise them again this year to slow the economy and maintain recent progress on inflation.

Stocks were mixed after the inflation data. The Dow Jones Industrial Average fell 70 points, or 0.2%, on Wednesday. The broader S&P 500 rose 0.1% and the tech-heavy NASDAQ Composite rose 0.3%.

On an annual basis, prices overall were up 3.7% in August versus 3.2% in July. Annual core inflation edged lower to 4.3% in August from 4.7% the prior month.

‘Still have to cross into the end zone’

While [slowing inflation](#) earlier in the summer signaled the Fed was making progress, it is like a football team trying to punch in a score after a long drive, said Stephen Juneau, senior U.S. economist at Bank of America.

“You still have to cross into the end zone, and that can sometimes be the hardest thing to do,” he said.

Several factors could put upward pressure on prices in the coming months.

Saudi Arabia's decision to extend cuts to its crude-oil output until the end of the year could [keep gasoline prices](#) elevated, according to the International Energy Agency. [A potential strike by the United Auto Workers union](#) could upend production at one or more auto manufacturers and push up prices on dealership lots. Recently reached labor contracts in the [airline](#) and [healthcare](#) industries will boost pay for some workers at a time when the Fed is seeking a slowdown in wage growth to help cool inflationary pressures.

Core inflation has shown a more marked slowdown when considering a shorter time frame. The core CPI over the three months through August rose at a 2.4% annual rate, down from a 5% annual rate for the preceding three-month period.

Fed officials raised rates most recently in July to a [22-year high](#), and their decision on whether to lift them higher will depend largely on whether price increases continue to slow in coming months.

New York Fed President John Williams last week pointed to measures of inflation that incorporate a widely anticipated slowdown in housing-rent growth, which suggests underlying price pressures are near 2.5%. "I'm not saying that the job is done or we're at 2.5%, but it is showing us there's some favorable, if you will, tailwinds bringing inflation" down, he said at a conference.

A big question is whether a step down in price pressures that began in June will be sustained. Officials are wary about prematurely declaring that inflation has slowed. Price pressures appeared to ease at times in 2021 and 2022, only for inflation to reaccelerate.

"I want to be very careful about saying we've done the job on inflation until we see" more monthly inflation readings like June and July, Fed governor Christopher Waller said last week on CNBC.

Gasoline prices spur broader inflation

While the rate of price increases has slowed over the past year, many Americans are taking little comfort from this because the run-up in the price of everything from cars to restaurant meals to housing since 2021 has been abnormally large and because prices aren't declining for many of these items.

Michael Davidson, of Arlington, Va., said he was aware of headlines about cooling inflation and a solid jobs market, but that prices for gas and groceries were still a

source of anxiety for him. He said he has noticed his grocery bill every few weeks is up by about \$50 now compared with last year.

Davidson, 23 years old and a recent college graduate, said he limits eating out to stretch his pay as an investment analyst at a small family office.

“Everything pretty much feels like it’s going up price-wise,” Davidson said. “I feel like I’m being pushed between a rock and a hard place.”

[Americans paid more at the pump during August](#), with prices up 10.6% from the prior month, the largest one-month increase since June 2022, according to Labor Department data.

The average price of a gallon of regular gasoline was \$3.84 in August compared with \$3.60 in July, according to OPIS, an energy data and analytics provider. Pump prices have held nearly steady in September. Unlike the CPI, those gasoline prices aren’t adjusted for seasonality.

Energy and food prices heavily influence the way many Americans view inflation and can affect their behavior, including the wages they demand from employers. Food prices rose a mild 0.2% in August on a monthly basis, the same pace as in July.

Higher energy costs can also feed into prices of non-energy goods and services. When they were falling until recently, transportation services helped drive tame core inflation readings, but that could be at risk if energy prices keep rising. Last month, [airline fares](#) rose 4.9% after steep declines earlier in the summer.

A cooling labor market could counter some of those trends. [Rising unemployment](#) might worry consumers and ease spending, which could slow price increases, said James Knightley, chief international economist at ING.

Some firming of overall price gains this summer could be a “bit of a blip in a long-term softening trend for inflation,” he said.