

Focus on the Core

Broadly speaking, consumer prices were notably higher in August than the previous month, but this was expected due to known increases in crude oil and gasoline prices. While progress on inflation is mixed it does continue on core inflation measures while the labor market continues to slowly cool. This gives the Federal Reserve (the Fed) the green light to keep the rates unchanged on September 20, but leaves the door open for one potential rate hike later in 2023.

Inflation Measures

On August 31, the Fed's preferred inflation measure, the personal-consumption expenditures price index (PCE), was released for July. From the same month one year ago, headline PCE increased by 3.3% while core PCE, measurements that exclude volatile food and energy prices, was up 4.2%. On a month-over-month basis both indices were up 0.2%, which on an annualized basis is approximately 2.4%.

On September 13, the August consumer-price index (CPI) was released and the all-items index saw a notable jump predominantly due to increases in gasoline prices and no relief from the shelter component of the index, which increased for the 40th consecutive month. The core CPI gained 4.3% on an annual basis, as compared to 4.7% in July. Compared to the previous month, core CPI gained 0.3% (approximately 3.6% annualized), compared to last month's 0.2%.

Labor Market

The August jobs report from the Department of Labor was released on September 1 and it estimated that nonfarm payrolls increased by 187,000, which is exactly the same initial estimate provided last month, and is consistent with market estimates. Once again, this jobs report included downward revisions to the previous two months of reported new jobs with June revised downward by 80,000 and July revised lower by 30,000. The current estimate for average monthly job creation over the last three months is 150,000 as compared to 238,000 during the previous three-month period (March through May).

Hourly wages for August grew by 4.3% over the past 12 months, which is similar to the annual increases observed over the past several months. The unemployment rate increased from 3.5% to 3.8%, but this looks to have been a result of a large increase in the estimated size of the labor force.

The Fed

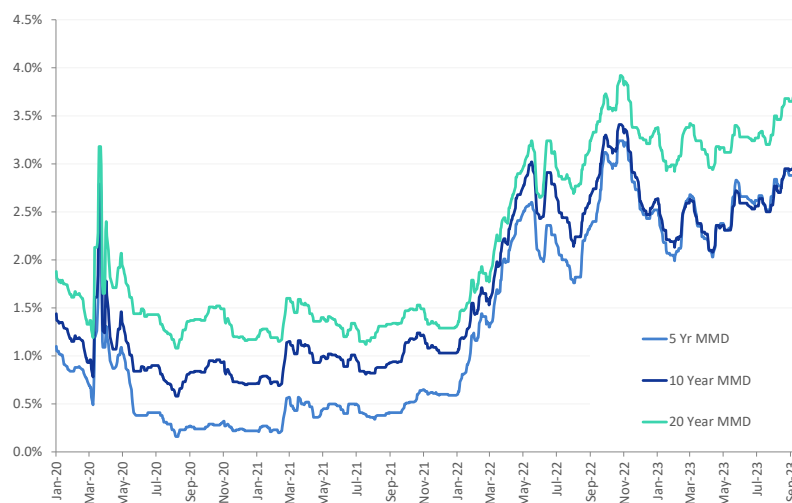
The next Federal Open Market Committee (FOMC) meeting will conclude on September 20, with most market participants expecting the Fed to hold rates steady at the current range of 5.25%-5.50%. That stated, interest rate traders now have a 40% probability of another 0.25% increase at either the November 1 or December 13 FOMC meetings.

With no rate increase and Fed Chair Jay Powell expected to keep his slightly hawkish, data dependent language in place for the press conference, the most interesting bit of information to come from next week's FOMC meeting might be found in the committee's quarterly Summary of Economic Projections. Will there be new information on the likelihood of rate cuts next year? Probably not, but we shall see.

Municipal Market Update

Municipal bond rates have been generally range bound since the beginning of December last year. That stated, rates have drifted higher over the last month, largely in sympathy with the US Treasury market. The following chart provides Municipal Market Data (MMD) AAA yields since the start of 2020 for 5-year, 10-year, and 20-year maturities. As illustrated, interest rates on municipal bonds are lower than their 2022 peak that occurred during the last week in October. Current rates for the below three maturities are up 0.35% to 0.44% compared to December 1, 2022.

5-, 10-, 20-yr AAA MMD Yields | January 2020 - Current



REFINITIV MMD yields for 5-, 10-, 20-yr maturities, AAA-rated, General Obligation (5.00% coupon).

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