

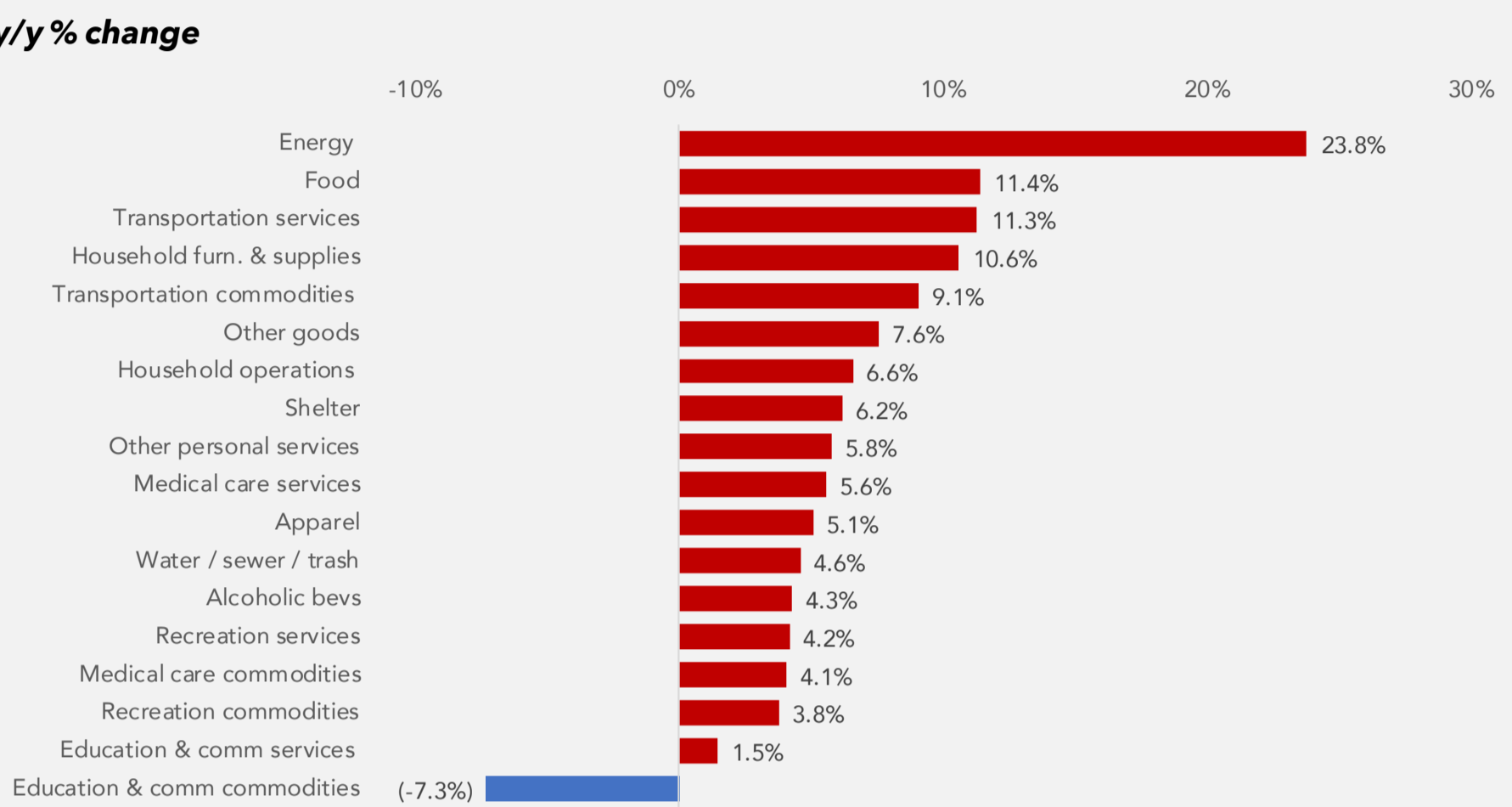
Chart of the Day

For many investors, the key question has become whether or not US inflation is "past peak." However, as evidenced by Tuesday's US CPI report, perhaps we should be just as concerned about "how sticky" certain sub-categories of inflation may be, even as they moderate in the months ahead.

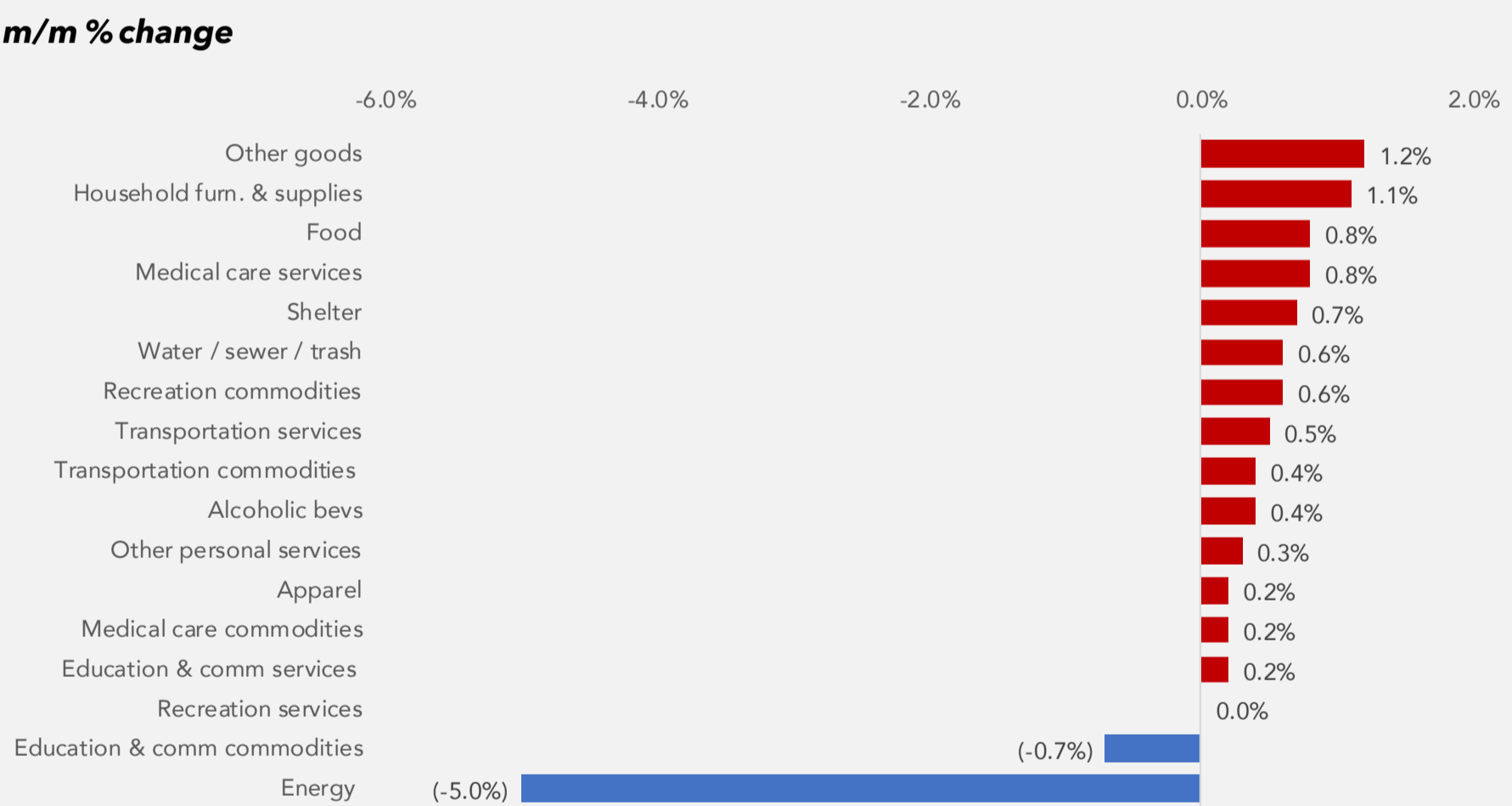
While headline inflation decreased modestly in August, many sub-categories rose to their highest levels in decades. The decline in US gas prices proved to be a bright spot in a bad report, with the national average of gas now at \$3.70 per gallon, 26% below the peak of \$5 earlier this summer. By comparison, electricity and natural gas prices increased, as did core inflation. From July to August, core CPI rose from 5.9% to 6.3%, its first increase since March, and a marginal increase that was 2x consensus expectations. Equally concerning for investors, core inflation's sharp rise was broad-based across a range of sub-categories including food, goods, and services.

Among this group, "core services" inflation, which represents a large percentage of the CPI basket, grew at its most rapid rate in 30 years (since Feb 1991). Services inflation may also prove to be the most "sticky" sub-category of CPI in the months ahead given its reliance on labor. The increase in services inflation in the August report was also spread widely across numerous categories, including medical care, rents, transportation, auto repairs and insurance.

Examined on an annual basis (y/y), energy prices have risen more rapidly in the US than any other sub-segment of the CPI basket.

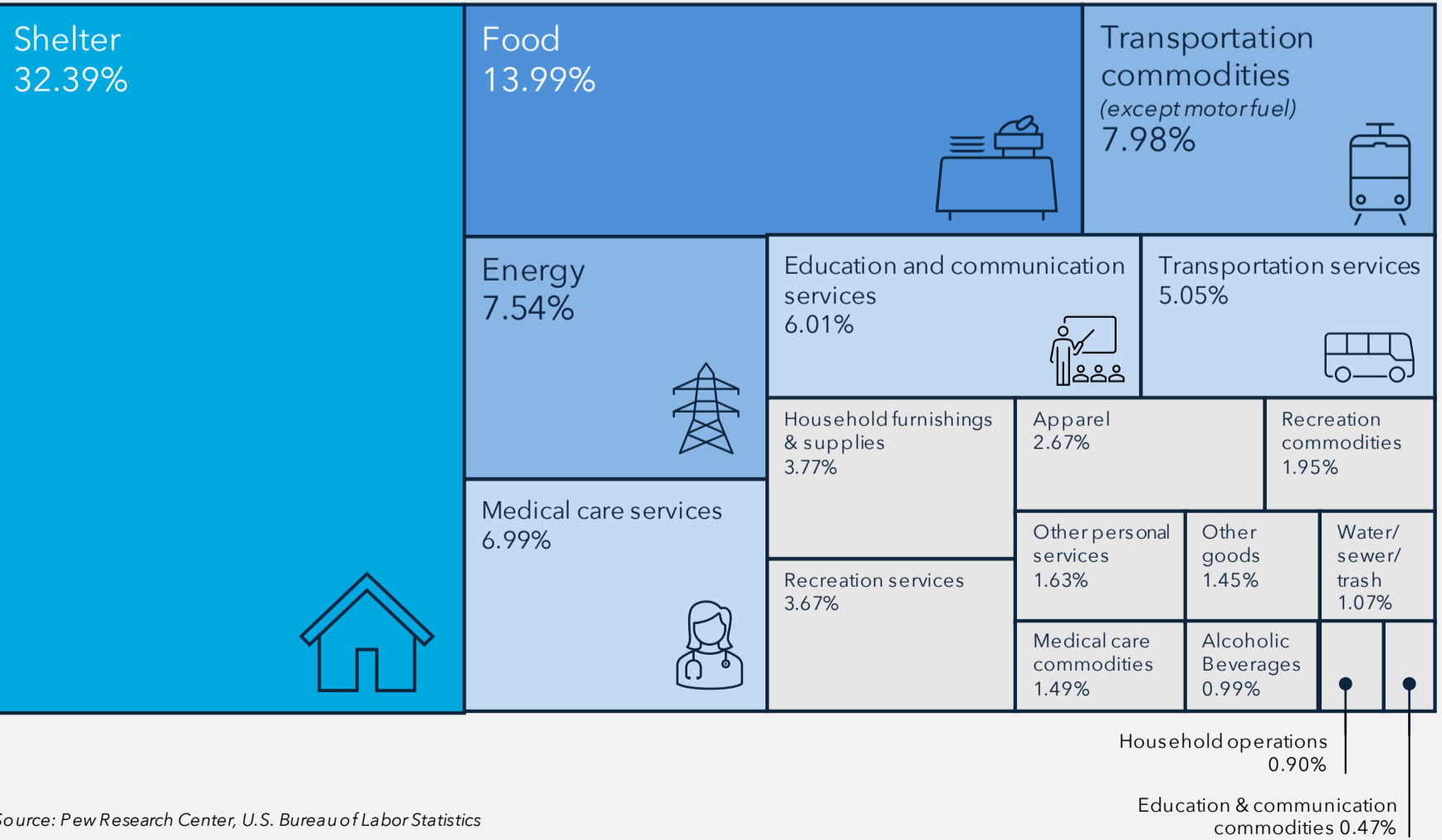


However, from July to August (m/m), energy prices moderated more than any other major sub-segment of the US CPI basket. By comparison, prices in most other major sub-segments (food, goods and services) rose more than expected over the past month.



Shelter and food, two of the more significant drivers of the larger than expected US inflation in August, are the two largest sub segments of the US CPI basket (nearly 40% in aggregate).

Breakdown of US Inflation Basket



Source: Pew Research Center, U.S. Bureau of Labor Statistics

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"Macro stability isn't everything, but without it, you have nothing."