FLORIDA PRIME™

Weekly Commentary

OCTOBER 02, 2023

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

Rising oil prices distort inflation

One half of the Federal Reserve's Congressional mandate keeps moving in the right direction. The Personal Consumption Expenditures (PCE) index rose less year-over-year in September than in August. The Bureau of Economic Analysis said that the core reading, which strips out volatile energy and food prices, rose 3.9% year-over-year (y/y) in August. That's less than the 4.3% y/y in July.

But what about the full PCE measure? At 3.5% y/y, it rose more in September from 3.4% y/y in August. But the culprit is the slow grind upward of energy prices, especially crude oil, which is now trading at more than $90 per barrel in both Brent and West Texas Intermediate trading. The question is how long oil and gasoline costs will remain elevated, especially considering the approaching winter. If they don't decline, it will complicate the Fed's decision on rates at its November Federal Open Market Committee meeting. The facts that policymakers prefer Core PCE and that higher energy prices might contribute to a slowing in consumer spending could very well mean officials will forgo a hike. That could mean we have seen the last of hikes in this tightening cycle. A month's worth of economic reports will play a large role, including the employment situation released this week.

G40461-19 (10/23)