Weekly Commentary

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Hard to tell

The downward path of inflation is critical to the next step the Federal Reserve will take on interest rates, but its slope has been so gradual lately that the central bank has not had the confidence to cut the fed funds rate. In May, the grade of the road was so slight as to be hard to discern.

The personal Consumption Expenditures (PCE) Index that the Bureau of Labor Statistics released Friday did not change in April to May, only pulling annualized inflation from 2.7% to 2.6%. At a 0.1% growth rate, Core PCE (which strips out volatile inputs such as energy and food prices) did increase in May, but less so than April's 0.3% increase. The year-over-year growth rate fell from 2.8% in April to 2.6%.

Any easing of inflation is better than none—and certainly better than a rise—but it, and the stickiness of other measures of price and cost, likely won't give the voting members of the Federal Open Market Committee meeting the impetus to lower the target range from 5.25-5.50% when it meets later this month. And with the general election on the horizon, we don't expect the first reduction to come until November or December. But there's plenty of data in the offing by then.

Personal Consumption Expenditures Price Index (PCE): A measure of inflation at the consumer level.

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