Fed's preferred inflation measure shows slowest monthly increase since 2020

Josh Schafer
·Reporter
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The Federal Reserve's preferred inflation metric grew at its slowest pace on a monthly basis since late 2020 during August, new government data showed.

The Personal Consumption Expenditures (PCE) Index grew 3.5% year over year in August, up from 3.4% the month prior and in line with expectations. "Core" PCE, which excludes the volatile food and energy categories, grew 3.9%, down from 4.1% from the month prior and in line with what economists surveyed by Bloomberg had expected.

Month-over-month, core PCE rose 0.1% in August, down from 0.2% in July, and the lowest rate since November 2020.

"It's about as good as you could expect," Moody's analytics chief economist Mark Zandi told Yahoo Finance Live. "0.1%, that's a really marvelous number. I'm sure it's overstating the case, I don't think it pushes all the way back into the Fed's target [2%] quite yet, but all the trend lines there look good."

Core PCE is the inflation measurement most often mentioned by Fed Chair Jerome Powell, who noted last Wednesday that inflation remains "well above our longer-run goal of 2%." The comments came after the Fed maintained rates in a range of 5.25%-5.50%, the highest level since March 2001, while also forecasting holding interest rates higher for longer than anticipated in an effort to tame inflation.

After today's print, markets are now pricing in a 67.2% chance the Fed doesn't raise rates again this year, up from a 57.7% chance a week ago, per the CME FedWatch tool.

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August's PCE reading falls in line with the month's Consumer Price Index, another closely watched inflation measure, which also showed cooling core price increases. August's CPI report showed headline inflation was 3.7%, also driven by higher oil and food prices.

Federal Reserve Chairman Jerome Powell speaks during a town hall meeting with teachers at the Federal Reserve Board Building, Thursday, Sept. 28, 2023, in Washington. (Mark Schiefelbein/AP Photo)

The Federal Reserve revealed in its Summary of Economic Projections (SEP) that it expects core PCE to fall quicker than initially expected this year. The SEP indicated the Federal Reserve sees core inflation peaking at 3.7% this year — lower than June's projection of 3.9% — before cooling to 2.6 % next year and 2.3% in 2025.

But Powell acknowledged during the subsequent press conference that a rise in core PCE isn't the only thing that could drive another interest rate hike this year. The Fed is also closely following any economic developments that could stifle inflation's path downward.

"The heat that we see in GDP, is it really a threat to our ability to get back to 2% inflation? That's going to be the question," Powell said. "It's not a question about GDP on its own."

PCE could be the last key economic data report from the BLS for an unforeseen amount of a time as a government shutdown deadline nears on Sunday. Experts see a very likely chance the government shuts down on Sunday, and sources have told Yahoo Finance's Ben Werschkul that will result in no releases from the BLS until the shutdown ends.

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Some economists believe this lack of visibility into the data could force the Fed to hold rates steady at its next meeting in November.

"If there is a protracted shutdown, the lack of data availability could also keep the Fed on hold in November," wrote Bank of America US economist Michael Gapen, who had previously projected another rate hike for the Fed in November.

Josh Schafer is a reporter for Yahoo Finance. Follow him on X @_joshschafer.