Weekly Commentary

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Inflation steady

Is inflation taking a rest on the way down or setting up shop? That's what the Federal Reserve, and many economists, would like to know. After declining in an orderly fashion from its multi-decade high last year, the Personal Consumption Expenditures (PCE) Index posted an annualized 2.7% growth rate in March, slightly higher than the 2.5% gain in February and above market expectations for 2.6%. The monthly figure rose 0.3% from February, the same as it did from January to February. In March, Core PCE, which excludes volatile energy and food prices, increased at the same year-over-year growth rate of 2.8% as it had in February, but forecasts were for it to decline to an annualized 2.7%. Core rose 0.3% from February.

Considering that the path of the Consumer Price Index also has leveled off, the Fed is surely getting nervous. If inflation isn't just pausing, but is going to camp out at current levels for a while, the potential increases for the economy to have a rough landing or even hit a recession. Not surprisingly, the prediction is that policymakers will keep the federal funds rate within the target range of 5.25-5.5% at the Federal Open Market Committee meeting next week.

Consumer Price Index (CPI): A measure of inflation at the retail level.

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

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