PCE of Mind?

The July consumer price report was largely contained, and the core CPI's gradual disinflationary path remains intact (discussed yesterday). Today's data suggest that ***the headline and core PCE deflators*** — the Fed's preferred inflation metrics — ***should rise 0.15% MoM / 3.7% YoY and 0.22% MoM / 3.3% YoY*** respectively. While somewhat encouraging, these data are unlikely to completely allay Fed voters' concerns about the *speed* of core PCE disinflation. Our view is that real income leads spending, and spending leads core CPI in a one-year process (shown below).

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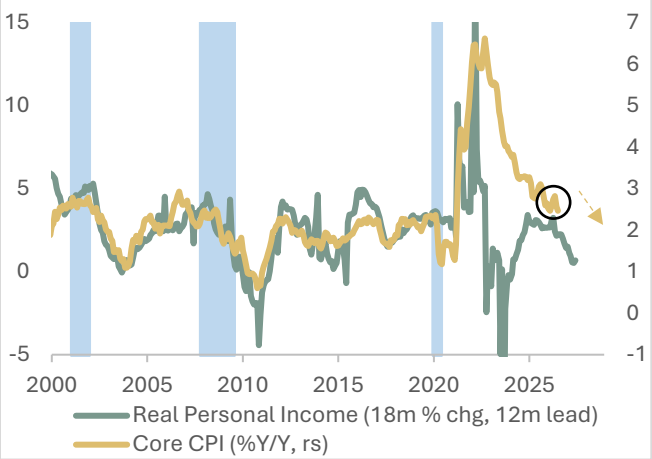
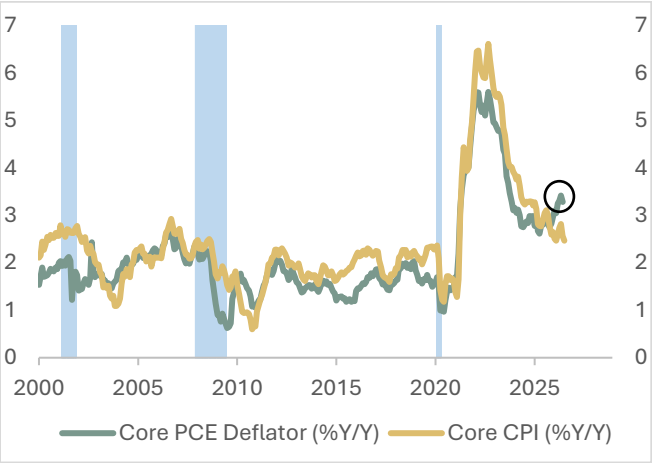
Core Inflation Follows Demand...



Source: BEA, BLS, Haver, SMBC Nikko

Core PCE (%Y/Y) vs. Core CPI (%Y/Y)...



Source: BEA, BLS, Haver, SMBC Nikko

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