Fed's inflation headache intensifies as core PCE hits low

US inflation data won't help the Fed convince markets that further rate hikes are to come

1.4% Core PCE (YoY%)

(Previously 1.5%)

As expected

The Fed's campaign to get markets entertaining the possibility of another rate hike this year hasn't got any easier following the release of the latest inflation data. Core PCE, which is the Fed's preferred way of tracking inflation, has fallen off a cliff in recent months and is now growing at the slowest rate since the end of 2015.

As the Fed has been quick to point out in the past, this is partly explained away by temporary factors. For instance, the cost of mobile phone contracts has fallen sharply as contracts with unlimited data become increasingly prevalent - that's shaving around 0.2ppts off most inflation measures at the moment. But these quirks don't fully account for all the recent sluggishness in inflation, and that's seen an increasing number of Fed voters sound the alarm.

We are still optimistic on the outlook, partly as the weaker dollar and higher oil prices add upward pressure to inflation. This should be enough to see another Fed rate hike in December, but the lack of an imminent inflation turnaround might see a few Fed officials lower their expectations for rate hikes when the infamous dot diagram is released at the next FOMC meeting.

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