

Moderated US Inflation Leaves Door Open for Rate Cuts



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Another month of moderated inflation in December keeps the Fed on track to decide when and how quickly to cut rates this year.

The Commerce Department stated Friday that the personal-consumption expenditures price index — known as the Fed’s preferred inflation measure — rose 2.6% in December from a year earlier, significantly below the 5.4% increase at the end of 2022.

Personal-consumption expenditures price index, annual rate of change



Note: Seasonally adjusted; core prices exclude food and energy categories.

Source: Commerce Department

Core prices, excluding volatile food and energy costs, increased by 2.9% on the year, representing the smallest year-over-year (YoY) rise since March 2021. Using the six month annualized rate, core inflation was 1.9% in December.

Charles Evans, president of the Chicago Fed from 2007 to 2021, argues that 6 months is a sufficient time frame to instill confidence in economists that inflation has returned to lower rates seen before the pandemic.

Hence, investors expect the Fed will cut rates this spring as a result of inflation declining faster than the central bank's forecast.

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