Inflation is Still Improving — Rate Cuts are Still Coming

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Cooling inflation and stable growth are starting to make the economy seem familiar.

According to the Fed's preferred measure — the personal-consumption-expenditures (PCE) price index — Inflation slowed considerably in November, with core prices increasing by merely 0.06% in the November PCE index according to UBS economists.

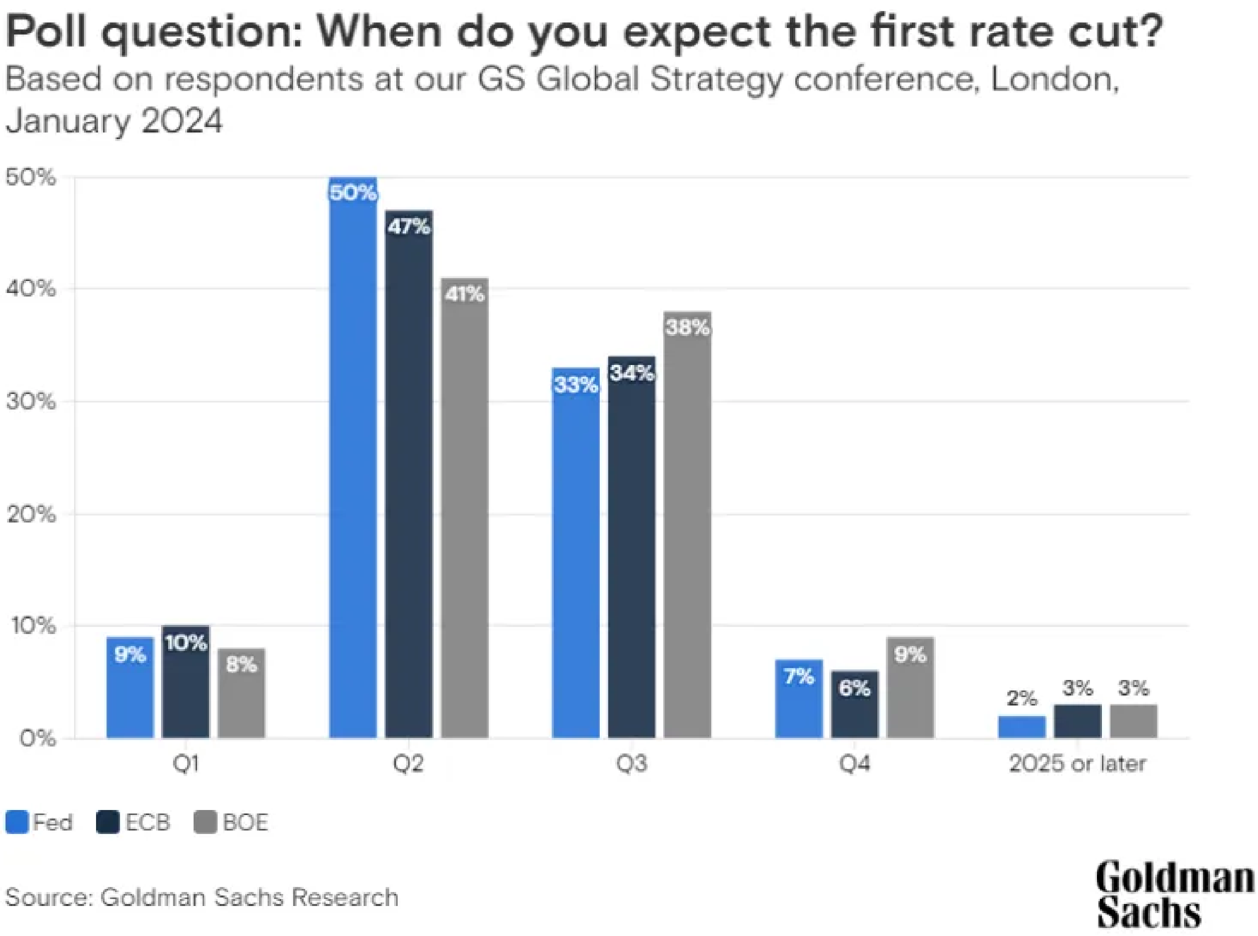
December figures from the Commerce Department, set for release next Friday, will likely show that prices increased an estimated 2% annual rate throughout the six months ended December, near the central bank's 2% target.

Similarly, fourth-quarter GDP reports are expected to show the economy grew at a 2% annual rate from the third quarter — roughly 2.8% above the year before — commensurate to the economy's growth trend 3 years prior to the pandemic.

Lastly, the labor market has maintained a slowing but steady pace. Both job gains and wage growth, despite looking strong, have slowed. Nevertheless, the labor market's rebalance coupled with a strong decline in inflation fuel optimism surrounding easing inflation without a recession. Currently, the 3.7% unemployment rate sits at its

2019 average.

As a result, Goldman Sachs Research expects the Fed to start cutting rates soon, likely in March. Economists expect five cuts this year, fewer than the 6 to 7 forecasted in financial markets.



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