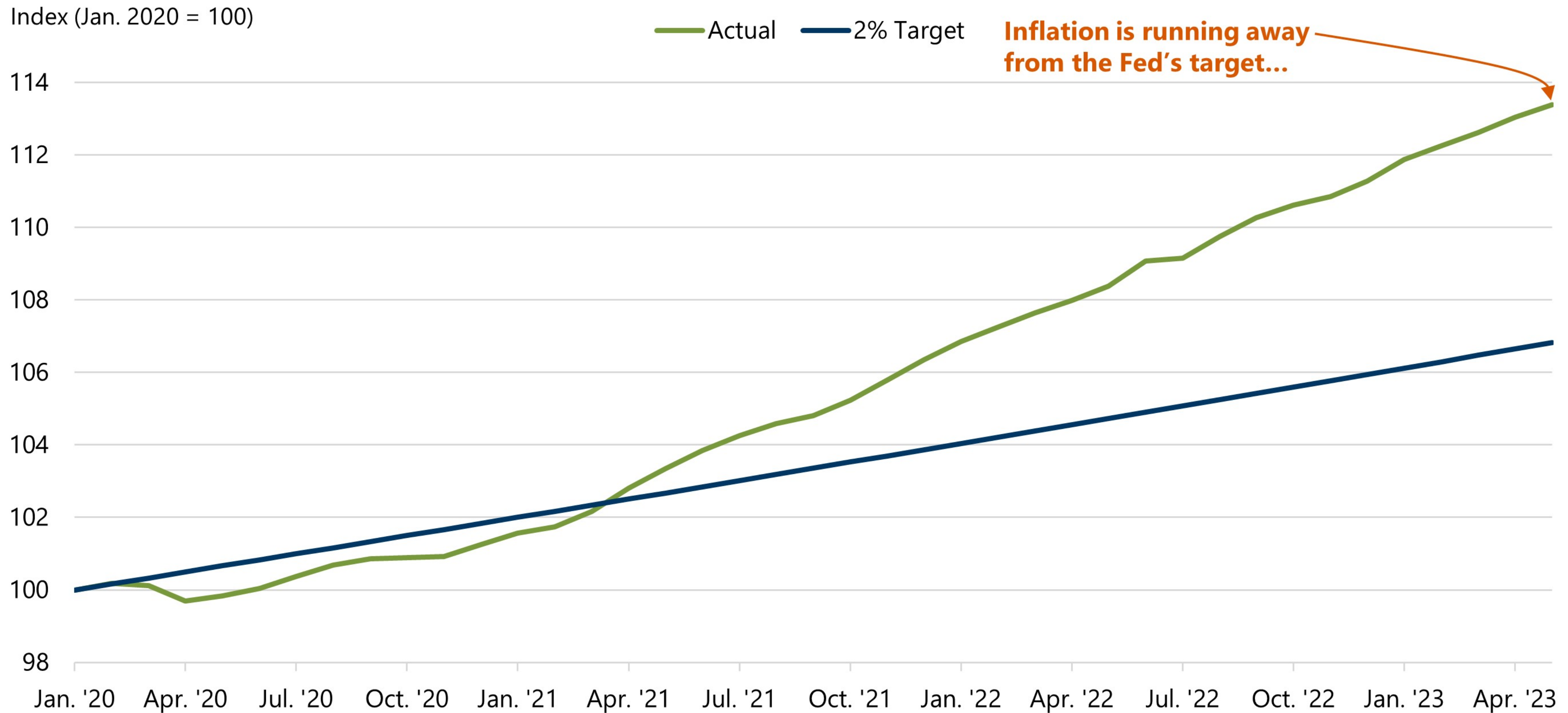


Uncomfortable Truth

Core PCE Inflation Index Versus The Fed's Target

For The Week Ending 06/30/2023



Source: Bureau of Economic Analysis, Payden Calculations

At the European Central Bank's annual central banking forum in Sintra, Portugal, this week, IMF Chief Economist Gita Gopinath delivered dinner remarks on "uncomfortable truths" about the global economy. One truth struck a chord, given recent charts of the week on global inflation. "The fact is that inflation is too high and remains broad-based in the euro area, as in many other countries," she said. "While headline inflation has eased significantly, inflation in services has stayed high, and the date by when it is expected to return to target could slip further." Later in the conference, Fed Chief Jerome Powell echoed her concern, adding, "The longer inflation remains high, the bigger the risks become." Uncomfortably, U.S. core PCE has been running well above the Fed's target for 29 consecutive months—the most prolonged period of above-target inflation since the 2% target took hold (implicit from 1996; official from 2012 onward). High inflation is no mere "shock" but rather a persistent problem. What will be the knock-on effects to expectations and wage demands?