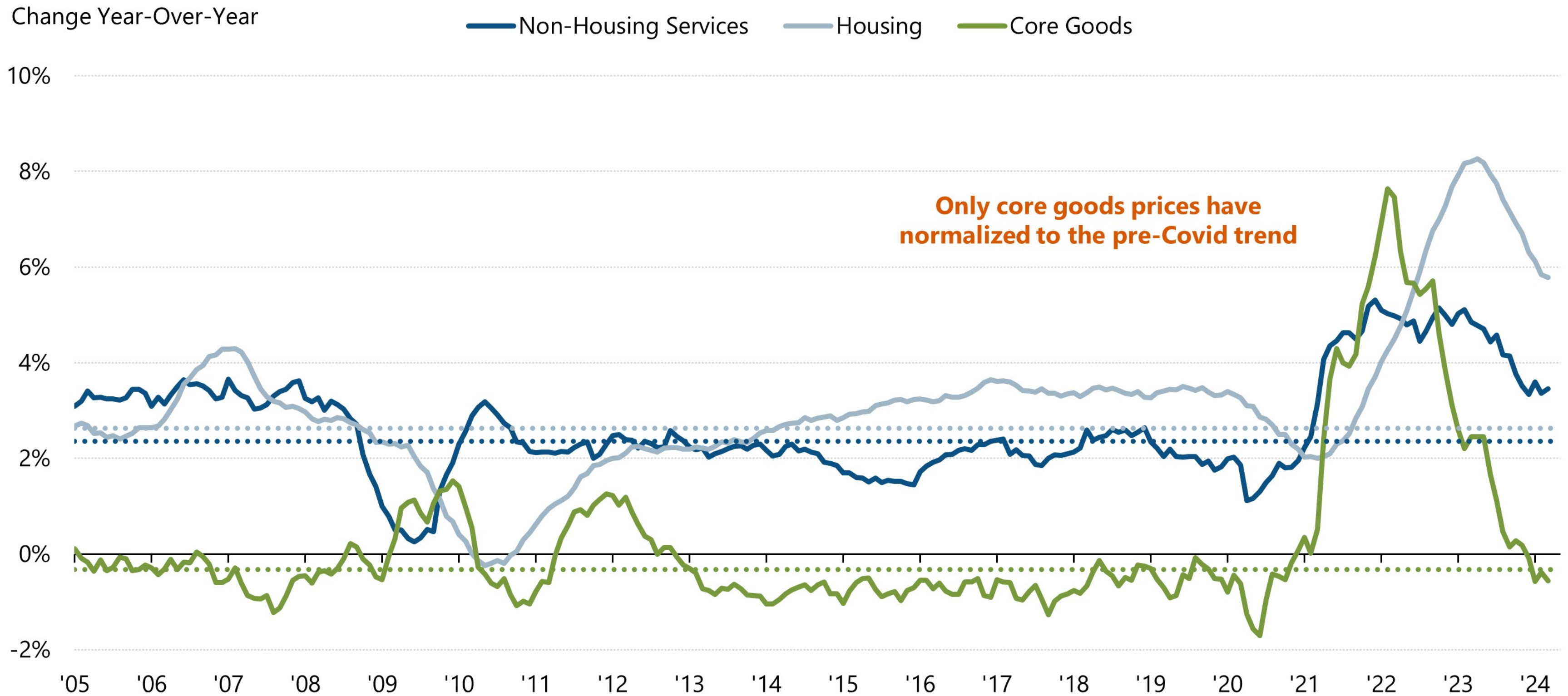


Sideways

Three Components of Core PCE And Respective Long-Term Averages*

For The Week Ending 05/31/2024



Sources: Bureau of Economic Analysis, Payden Calculations

*Dotted lines represent pre-pandemic long-term (2005-2019) averages

The core Personal Consumption Expenditures (PCE) Price Index rose 0.2% in April, yet the year-over-year rate stagnated at 2.8%. What gives? While the monthly increase rounds to 0.2%, if we go out to a few more decimal places, the monthly reading is actually 0.249%, in which an extra 0.1 basis point would have meant a 0.3% reading. Why belabor basis points? If the current monthly rate persists for the remainder of 2024, core PCE inflation will be 3.3% year-over-year at year-end. Investors may wonder why the disinflation process has gone sideways. Well, a sharp reversal in goods prices accounted for most of the disinflation in 2023. Meanwhile, services prices are increasing well above their historical average rate. And, in the last two disinflationary episodes, service prices took 23 additional months on average to cool from their peaks compared to goods prices. While we hope future monthly core PCE readings slow under 0.2%, don't be surprised if year-over-year inflation continues to move sideways.