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Annual U.S. inflation unexpectedly holds steady, well above the 2% target.

ECO

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Note

Annual U.S. inflation unexpectedly held steady in July, well above the Federal Reserve's 2% target for the 65th straight month, and the pause in the decline from a recent war-induced peak is likely to intensify the central bank's debate over whether interest rates should be lifted or held steady.

consumption

PCE

personal

expenditures

Note

The Personal Consumption Expenditures Price Index increased 3.7% in the 12 months through July, unchanged from June, the Commerce Department's Bureau of Economic Analysis said Wednesday. Economists polled by Reuters had forecast a reading for PCE, which the Fed uses to set its target, of 3.6%. The month-over-month figure also came in higher than expected at 0.2% in July after falling 0.1% in June, which had been the weakest reading since April 2020. Economists had forecast a 0.1% increase.

Excluding energy and food prices, socalled core PCE — which Fed officials use as a guidepost for inflation's underlying run rate — held steady at 3.3% on the year while rising to 0.2% on the month from 0.1% in June.

Note

The news gave a modest lift to expectations that the Fed may raise interest rates as soon as next month. Fed funds futures prices reflected about a 42% probability of a rate hike at the central bank's Sept. 15-16 meeting after the report, versus about 36% immediately before.

"This is data that supports a hike," said Omair Sharif, founder and president of forecasting firm Inflation Insights.

Note

Annual PCE shot to a three-year high of 4.1% in May in rapid fashion after President Donald Trump launched airstrikes along with Israel against Iran in late February, sending energy prices spiraling upward as the conflict shut in roughly a fifth of global oil supplies.

Six months later the conflict appears no closer to a final resolution, though the exchange of fire has diminished and oil prices and the wider inflation wave they instigated have retreated from their mid-spring highs.

The slowdown in inflation in the last two months has helped buoy the arguments of the majority of Fed policy committee members who voted last month to leave the central bank's benchmark interest rate unchanged in the 3.50%-3.75% range, where it has been since December. But the sluggish pace of improvement is unlikely to mollify a growing minority of Fed officials who argue tighter policy is needed, given that inflation has been above target since February 2021 and will not get to the 2% level without further restraint.

The BEA on Wednesday also updated data for economic growth for the second quarter, leaving unchanged its estimate of annualized gross domestic product growth at 1.5%. Among the notable changes from the first estimate was an upward revision to consumer spending during the April-through-June period to 3.4% from the originally reported 3.2%, an indication that the individual consumption that supports two-thirds of U.S. economic activity had held up through the first half the year.