A Modest Rise in Inflation Keeps September Cut Intact

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The Fed's preferred inflation measure continued to edge higher in August, although not enough to persuade Fed officials to abandon expected plans to trim the overnight target rate next month.

The Personal Consumption Expenditures (PCE) Index for August climbed +0.2% for the month and held steady at a +2.6% annual pace. Core PCE, generally considered the Fed's preferred inflation gauge, rose +0.3% (0.27), essentially matching the previous month's gain, while the annual core pace edged up from +2.8% to +2.9% (2.87), the highest since February. *Although it's clear that inflation is warming, concerns of more extensive tariff-related price pressures appear overblown.*

Core PCE inflation did rise to a six-month high, but the increase was modest and not expected to impact the Fed's September vote. Higher services costs were a primary driver of PCE last month, while goods costs actually declined. Portfolio management fees, associated with an extended stock market rally, made a notable contribution to the services index.

In related news this morning, both personal income and personal spending notched solid increases in August as the U.S. consumer remained resilient. Inflation-adjusted spending rose +0.3% last month, the most since March, following a tepid +0.1% gain in July. Personal income rose +0.4%, the most since April, after a +0.3% July increase.

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Personal income and spending, as well as the monthly and annual headline PCE numbers, *exactly matched median forecasts*. This data, calculated by the Bureau of Economic Analysis (BEA), has the advantage of being released later in the month, which allows for a higher degree of accuracy than the much earlier CPI and employment releases by the Bureau of Labor Statistics (BLS).

The next critical economic release will be the August employment report, a week from today. The fact the BLS commissioner was fired after presenting a shockingly weak July report amplifies the importance of the upcoming August numbers. *Payroll gains significantly above or below forecast will be questioned.* An especially weak report would likely draw the ire of the president, although ironically, extreme labor weakness might cause Fed officials to consider Trump's demand for more aggressive easing.

Global economic growth is clearly slowing. Although the U.S. economy has held up relatively well, a slump in global demand will hinder exports and weigh on future growth.

Yesterday, speaking before the Economic Club of Miami, outspoken Fed Governor Chris Waller emphasized this point, indicated he would support a quarter point rate cut at the September FOMC meeting while hinting at a larger reduction if the August employment release points to a substantially weakening economy and inflation remains well contained.

In other news, the Canadian economy contracted at a -1.6% annualized pace in the second quarter, the biggest drop since the onset of the pandemic as the ongoing trade war hammered Canadian exports. Negative GDP was expected, but the degree of

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decline was more than double the -0.7% median forecast. Global economic growth is clearly slowing. Although the U.S. economy has held up relatively well, a slump in global demand will hinder exports and weigh on future growth.

Bond yields are mostly flat in early trading. The September Fed announcement is 19 days away, but the August employment and CPI reports will shape the decision. The DOW and S&P500 are lower this morning after closing at record highs yesterday.

Market Indications as of 9:34 A.M. Central Time

DOW	Down -153 to 45,484 (HIGH: 45,637)
NASDAQ	Down -224 to 21,481 (HIGH: 21,713)
S&P 500	Down -49 to 6,453 (HIGH: 6,502)
1-Yr T-bill	current yield 3.85%; opening yield 3.84%
2-Yr T-note	current yield 3.62%; opening yield 3.64%
3-Yr T-note	current yield 3.58%; opening yield 3.59%
5-Yr T-note	current yield 3.70%; opening yield 3.69%
10-Yr T-note	current yield 4.23%; opening yield 4.21%
30-Yr T-bond	current yield 4.91%; opening yield 4.88%