

29 October 2018

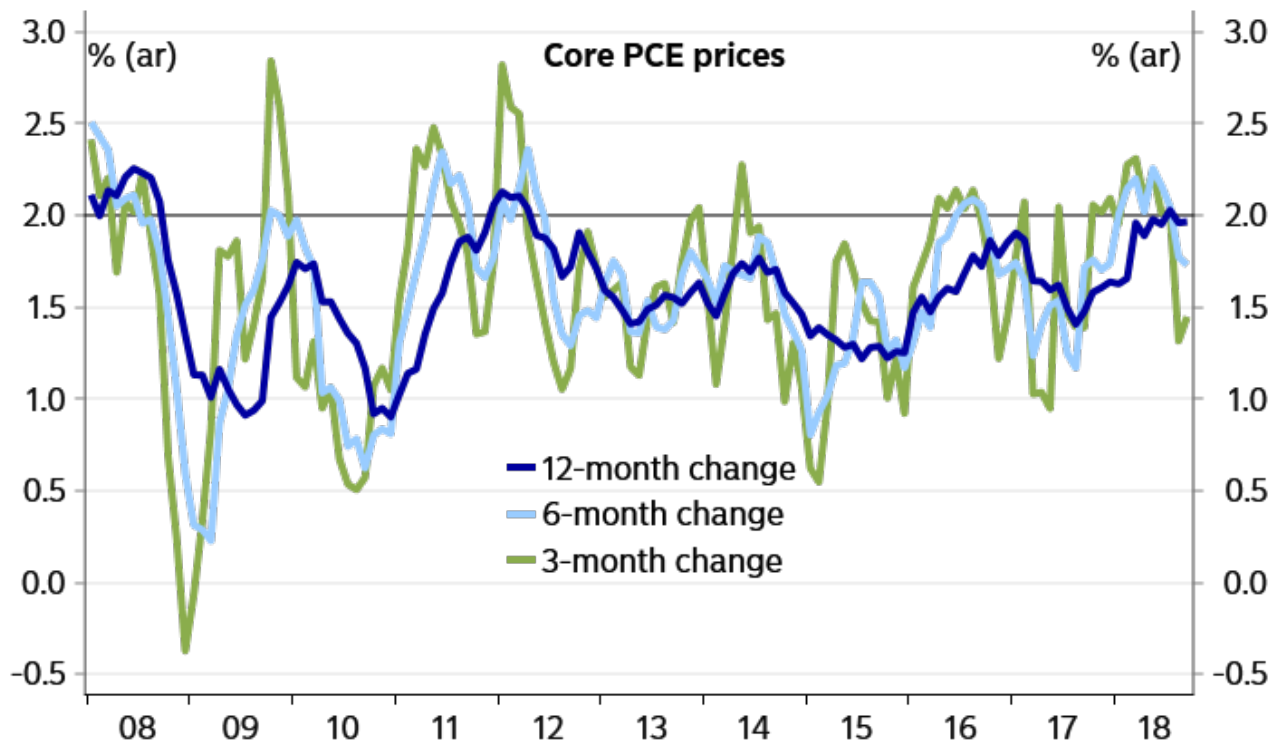
US core PCE comment: Slightly above expectations

Anders Svendsen

Core PCE prices increased slightly faster than expected in September, but the overall picture for August and September is still a loss of momentum. With core PCE around target and strong growth, the Fed will continue normalising monetary policy.

- Core PCE prices increased by 0.2% m/m in September, slightly faster than expected (Nordea and consensus: 0.1% m/m) after a weak core CPI report for the same month. Correspondingly, core PCE inflation remained unchanged at 2.0% - spot on the Fed's target.
- Headline PCE prices increased 0.1% m/m and 2.0% y/y, also slightly higher than expected and spot on target.
- Both core CPI and core PCE prices have showed rather weak momentum in August and September, but we find that most can be explained by temporary factors.
- The main negative surprises stem from core goods prices in general and apparel prices more specifically. Core services price inflation is still rising, and we expect more increases going forward as wage growth increases.
- We expect the Fed to continue normalising monetary policy for another year.

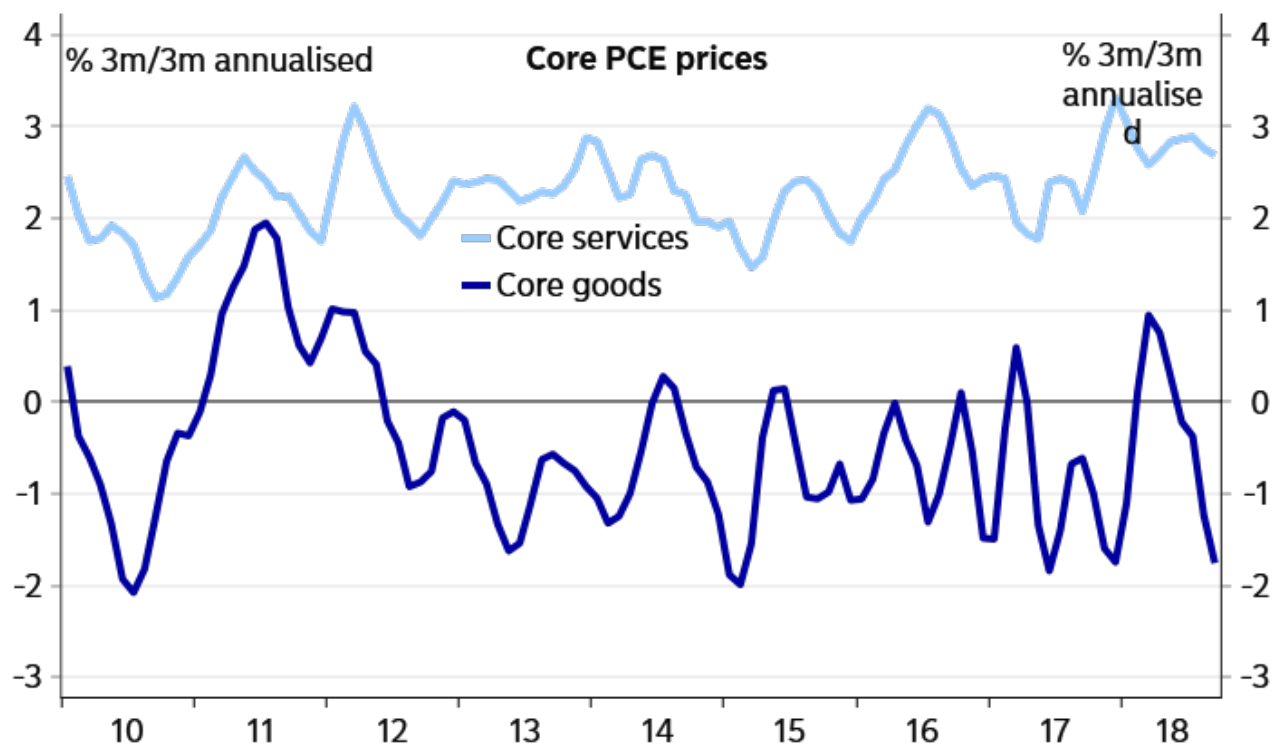
Chart 1. Core PCE losing momentum



Source: Nordea Markets and Macrobond

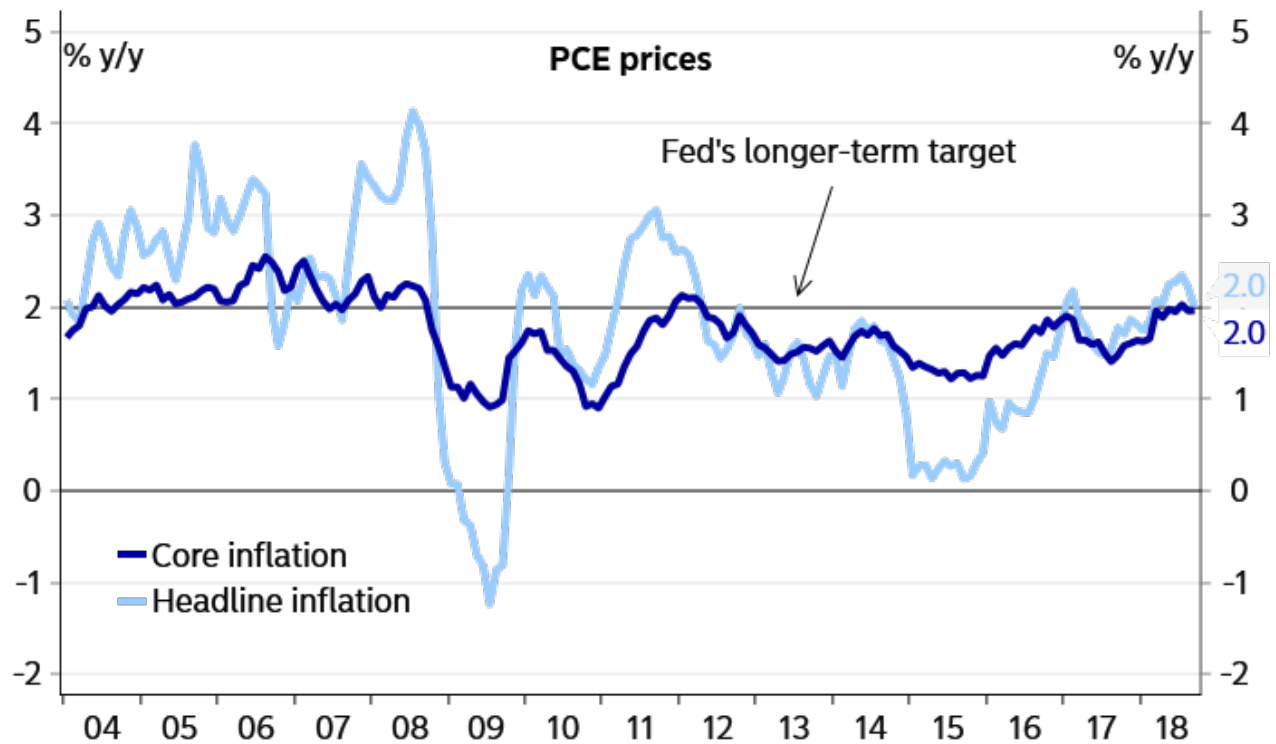
Nordea

Chart 2. Core goods vs core services



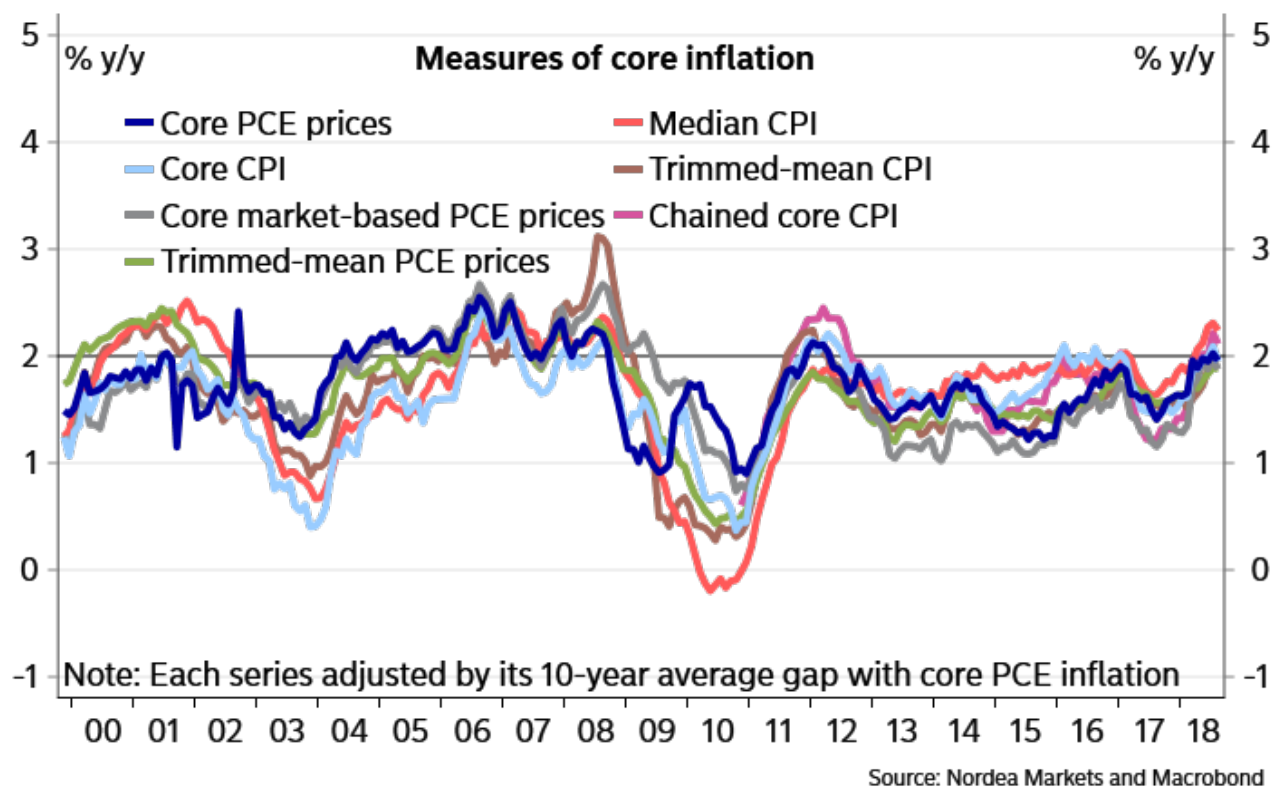
Source: Nordea and Macrobond

Chart 3. PCE inflation @ target



Source: Nordea Markets and Macrobond

Chart 4. Various measure of core inflation at target



Anders Svendsen
Chief Analyst
anders.svendsen@nordea.com
4555471527

DISCLAIMER

Nordea Markets is the commercial name for Nordea's international capital markets operation.

The information provided herein is intended for background information only and for the sole use of the intended recipient. The views and other information provided herein are the current views of Nordea Markets as of the date of this document and are subject to change without notice. This notice is not an exhaustive description of the described product or the risks related to it, and it should not be relied on as such, nor is it a substitute for the judgement of the recipient.

The information provided herein is not intended to constitute and does not constitute investment advice nor is the information intended as an offer or solicitation for the purchase or sale of any financial instrument. The information contained herein has no regard to the specific investment objectives, the financial situation or particular needs of any particular recipient. Relevant and specific professional advice should always be obtained before making any investment or credit decision. It is important to note that past performance is not indicative of future results.

Nordea Markets is not and does not purport to be an adviser as to legal, taxation, accounting or regulatory matters in any jurisdiction.

This document may not be reproduced, distributed or published for any purpose without the prior written consent from Nordea Markets.