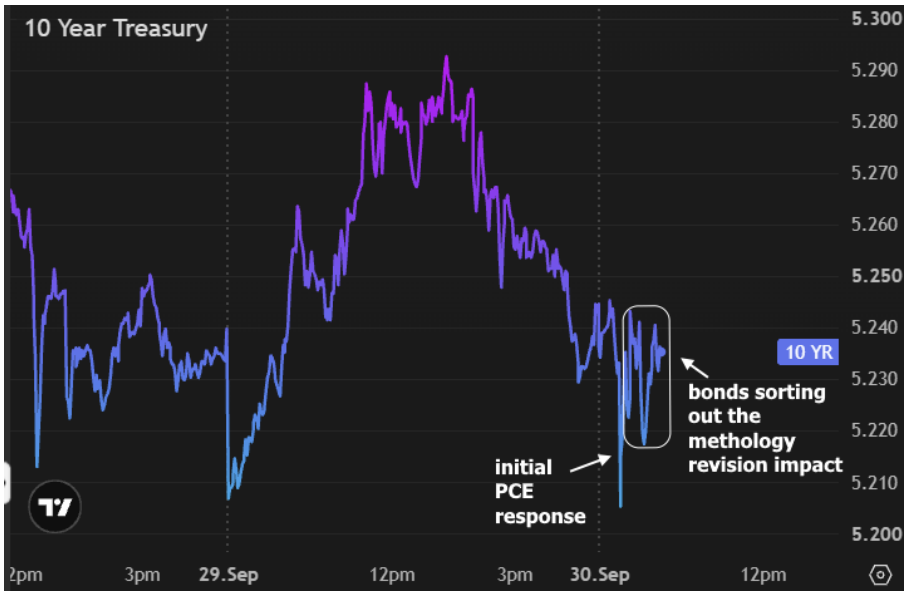
# The Day Ahead: Lower PCE Inflation, So Why Aren't Bonds Happier?

Core PCE came in at 0.2 vs a 0.3 forecast, and the bond market rallied a bit in response. That said, the unrounded number was .247, which about as high as it could be without rounding up to 0.3. Core annual PCE was 3.0, which was flat versus a downward revision from 3.3. More importantly, that downward revision wasn't mainly about new data collection showing lower prices, but rather a change in PCE methodology. Not all of the methodology change is transparent, but our best estimate is that a vast majority of the 0.3 downward revision was due to methodology changes (the math: 0.361 unrounded drop in y/y core PCE, July vs July, and 0.30 of that drop is in categories that were affected by methodology changes). Bottom line, inflation was actually fairly flat, and supercore (excludes food/energy/housing) was noticeably higher. Add the stronger ADP and GDP numbers into the mix, and bonds don't have a lot to celebrate this morning, so merely holding ground is a victory. Bottom line, y/y core PCE was HIGHER in August vs July before both rounded to 3.0%.



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