

# The Core Conflict: Is the Inflation Fight Won?

The central question for the FOMC is whether inflation is sustainably returning to its target (usually 2%). The lagging indicators provide the most direct, though delayed, evidence.

## 1. Core PCE Price Index (The Fed's Favorite Inflation Gauge):

**Scheduled Release:** Friday, Oct 31 (after the Wednesday decision).

**Forecast:** 0.2% m/m, same as previous.

**Influence on the Decision:** This is a critical point. The FOMC will not have this data when they make their decision on Wednesday. However, they have internal projections and will have seen the recent CPI data (from Oct 24), which came in cooler than expected.

### How it Shapes the Narrative:

If the Fed cuts rates to 4.00% as forecasted: They are essentially betting that the cooling trend seen in the CPI will be confirmed by the upcoming PCE data. They are acting on the assumption that inflation is under control.

**The FOMC Statement and Press Conference:** Fed Chair Jerome Powell will almost certainly reference their expectations for the PCE report. He might say something like, "While we await the PCE data, other indicators like the recent CPI report suggest that inflationary pressures are continuing to moderate, giving us the confidence to make this adjustment."

**The Risk:** If the PCE report on Friday comes in hotter than the 0.2% forecast, it would undermine the Fed's decision to cut rates and could lead to market volatility. It would suggest they acted prematurely.

## 2. Employment Cost Index (ECI):

**Scheduled Release:** Friday, Oct 31 (also after the decision).

**Forecast:** 0.9% q/q, same as previous.

**Influence on the Decision:** Like the PCE, the FOMC won't have the final number, but they will have a strong internal forecast. The ECI is considered the "cleanest" measure of labor costs because it isn't distorted by shifts in the composition of the workforce.

### How it Shapes the Narrative:

**A "Sticky" ECI is a Major Concern:** A steady 0.9% reading confirms that wage growth is not slowing down. This is a primary driver of inflation, especially in the services sector.

This creates a conflict for the Fed: On one hand, cooling CPI/PCE suggests they can ease policy. On the other, persistent wage growth suggests inflation could remain "stuck" above their target.

**The Likely Outcome:** This is a strong argument for the Fed to be cautious. Even if they cut rates, the sticky ECI gives them a powerful reason to signal that this is not the start of a rapid easing cycle. Powell will likely emphasize that the labor market remains tight and that the Fed will remain "data dependent," pushing back against market expectations for a series of quick cuts.

## 3. Advance GDP Price Index:

**Scheduled Release:** Thursday, Oct 30 (the day after the decision).

**Forecast:** 2.9%, up from 2.1%.

**Influence on the Decision:** Again, this is post-decision data. The forecast for an acceleration in this inflation measure is another reason for caution. It confirms that during the last quarter, price pressures within the broader economy were actually picking up, even if the monthly CPI/PCE is cooling. This adds to the narrative that the inflation fight isn't over.

## Summary of Influence:

The lagging indicators create a powerful tension for the FOMC:

### Justification for a Cut (The "Dovish" Case):

- ✓ The recently released CPI data (a lagging indicator from the previous week) was softer than expected. The FOMC will likely use this as the primary justification to proceed with the forecasted rate cut to 4.00%, arguing that their restrictive policy has successfully brought down inflation.

### Justification for Caution (The "Hawkish" Warning):

The forecasts for the upcoming ECI and GDP Price Index are pointing to persistent underlying price pressures. The Fed will use these lagging indicators to temper market excitement. They will signal that:

- ⚠ The war on inflation is not definitively won.
- ⚠ Future rate cuts are not guaranteed and will depend on all incoming data.
- ⚠ They are prepared to hold rates steady or even hike again if inflation proves more stubborn than expected.