Daily Bulletin

August 27, 2026

U.S. PCE Inflation Trends Higher, Reaching 3.7% in July 2026

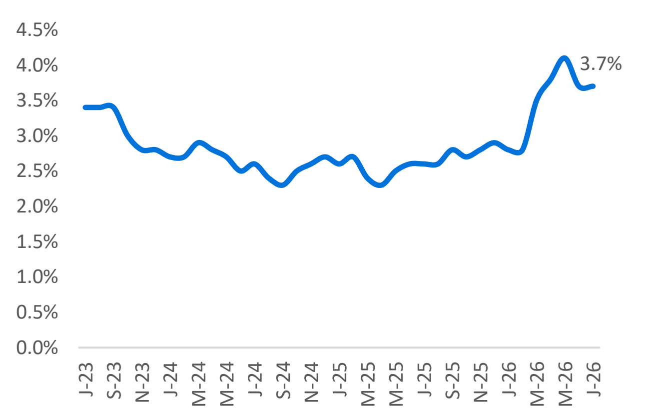
U.S. personal consumption expenditures (PCE) index remained elevated in Jul-26 with an increase of 3.7% compared to the same period last year. The MoM figure increased 0.2% after falling 0.1% in Jun-26, the weakest reading since Apr-20. The yearly rebound was primarily driven by a USD 24.3 bn YoY increase in spending on financial services and insurance. Excluding energy and food prices, Core PCE index reported a 3.3% YoY increase, with a 0.2% MoM rise from 0.1% in Jun-26.

The latest reading has increased the possibility of rate hike. Fed funds futures indicated around 40% probability of a rate hike in Sept-26 FOMC meeting, up from 36% prior to the release. The price pressures remain persistently above the Fed's 2% target, with the inflation trajectory deteriorating since Feb-26 which stood at 2.9% YoY, influenced by the energy shock following the conflict in Middle East. Moreover, additional tariff-related pressures are expected to emerge following the breakdown in US-Canada trade negotiations that fell apart on Friday.

The economic data also points to a relatively resilient U.S. economy, reducing the urgency for monetary easing, as the latest estimates for 2Q26 GDP growth were maintained at an annualized 1.5%. Consumer spending growth for 2Q26 was revised upward to 3.4% from 3.2% previously reported. Sales to private domestic purchasers were also revised to 4.2% for 2Q26, the highest since 1Q23, while corporate profits for the quarter increased by USD 400.9 bn, marking the second largest quarterly increase after 3Q20. Business investment remained supported by continued strength in AI-related spending.

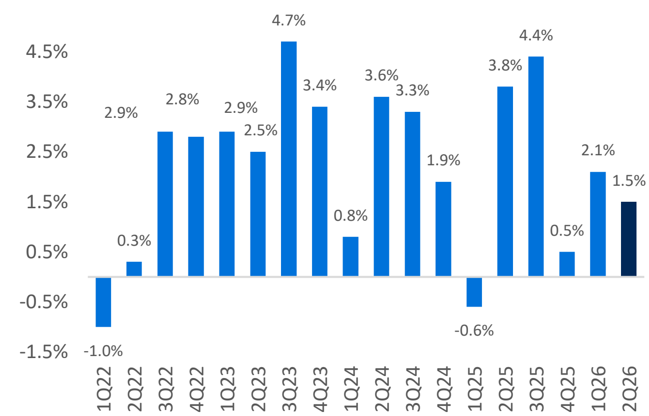
Most likely the Fed to maintain a cautious stance on monetary policy. While the July data increases the probability of a rate hike, the Fed may prefer to assess the persistence of inflationary pressures, particularly from tariffs and energy prices, before adjusting rates. The latest FOMC minutes indicated dissent within the Fed, with four of the 12 Fed banks' directors recommending a 25-bps rate hike ahead of the July meeting. However, the FOMC ultimately voted 9-3 to keep the policy rate unchanged at 3.50%-3.75%.

U.S. PCE Index



Source: Bloomberg, Bureau of Economic Analysis, anbc research

U.S. Quarterly Real GDP



Source: Bureau of Economic Analysis, anbc research

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