



The Daily Dish

Fed Watch

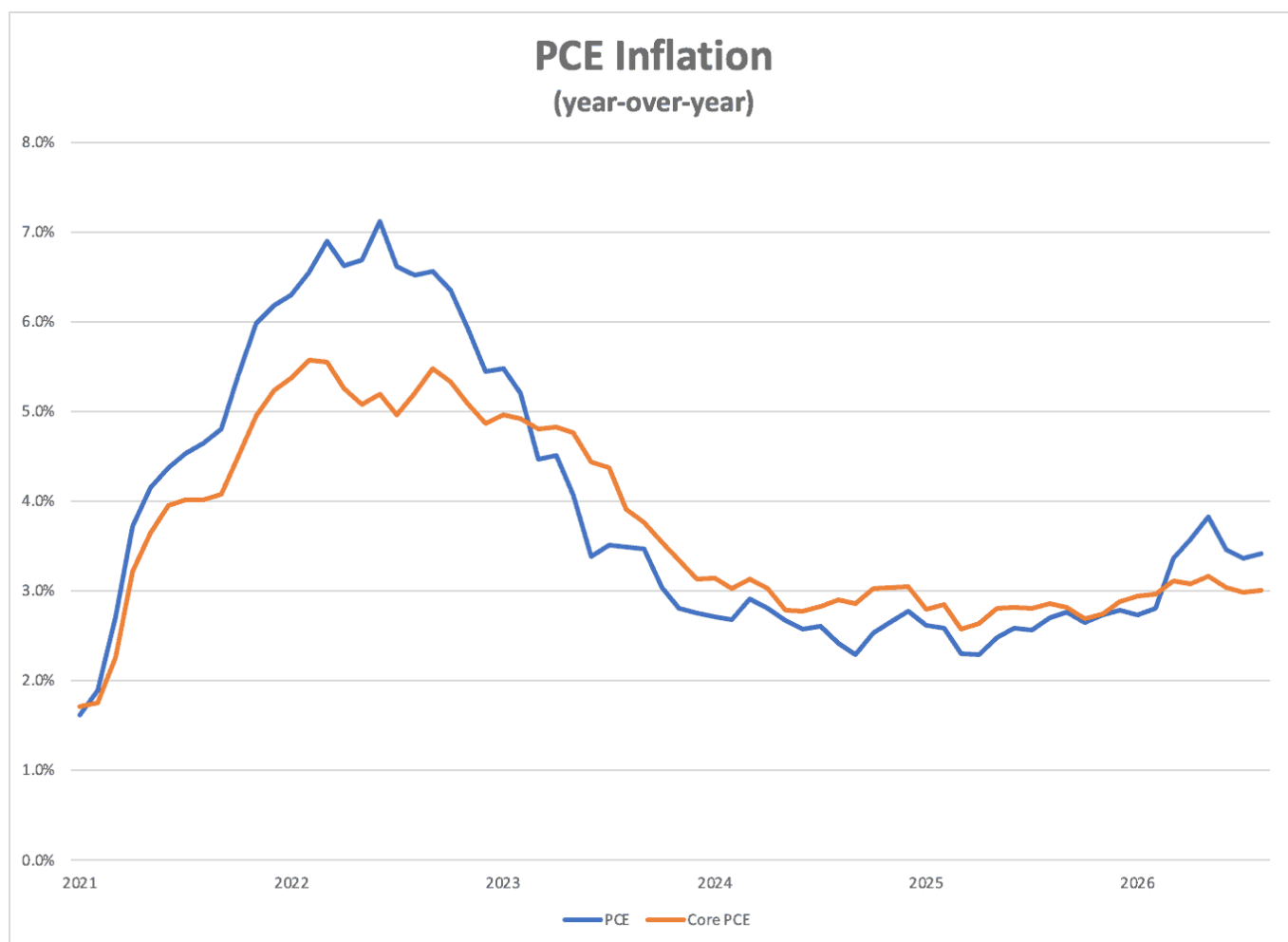
DOUGLAS HOLTZ-EAKIN | OCTOBER 1, 2026

Yesterday the Bureau of Economic Analysis released August data on the personal consumption expenditures (PCE) price index – the Federal Reserve’s preferred measure of inflation – as well as revised estimates of gross domestic product (GDP) and its components for the second quarter of 2026. On the whole it was good news, with inflation coming in a bit softer than expected and GDP revised to show stronger growth.

PCE inflation was 0.3 percent in August and 3.4 percent year over year. So-called “core” inflation (excluding food and energy prices) was 0.2 percent in August and 3.0 percent year over year. These somewhat softer inflation readings were widely interpreted as giving the Federal Reserve the excuse it needed to not raise rates at its October meeting. For example, Politico [reported](#):

A key gauge of inflation rose less than expected in August, decreasing the odds that the Federal Reserve will hike interest rates again before the midterm elections, a potential reprieve for President Donald Trump and Republicans.

To get some perspective on the issue, here is the entire history since the onset of higher inflation in 2021.



To Eakinomics' eye, the problem remains the fact that core inflation (orange) is still stubbornly stuck in the vicinity of 3 percent and has been since 2024. If the Fed is serious about its 2-percent target it should come to the conclusion that financial conditions are too loose and another interest rate hike is in order.

This conclusion is reinforced by the GDP revisions, which now show real GDP rising at a 2.2 percent annual rate – revised up from 1.5 percent. Inside this top line, real PCE is growing at 3.8 percent, with durable goods purchases rising at a 7.4-percent annual rate. Real equipment investment rose at an annual rate of 13.4 percent, while intellectual property products (think software) rose at a 9.2-percent annual rate. These data are indicative of very fast aggregate demand growth against which the Fed should lean toward keeping inflation moving toward 2 percent.

The inevitable entreaties of the Wall Street easy-money crowd and the president's allergy to higher rates notwithstanding, the Fed should do everything in its power to quickly get back to its inflation target. And that means raising rates.