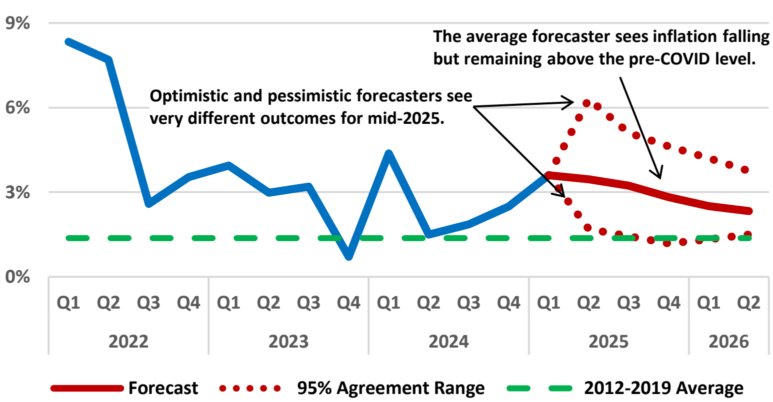
Economic & Market Watch Intelligence Brief

Briefing

- There is no perfect measure of inflation. The Consumer Price Index (CPI) and the Personal Consumption Expenditures Price Index (PCE) are alternate measures of consumer prices (Figure 1). CPI includes only prices directly paid by consumers. For example, an increase in health insurance premiums comes directly out of consumers' pockets and so is counted in both PCE and CPI. However, medical costs paid by insurance companies are counted in PCE but not CPI. PCE accounts for short-term alterations in consumption patterns due to changing prices, but CPI does not.
- Core CPI removes food and energy prices from CPI. This reduces month-to-month volatility without having much of an effect on the average level.
- Since 2012, PCE inflation has averaged one-tenth of a percentage point less than CPI inflation. Core CPI inflation has averaged four-hundredths of a percentage point more than CPI inflation (Figure 1).
- The median consumer inflation rate worldwide is currently 3% and ranges from a low of minus 2% in Sri Lanka to a high of 113% in South Sudan, versus 2.4% in the U.S. (Figure 2).
- Inflation erodes the purchasing power of money so that, over time, it takes more and more money to buy the same things (Figure 3).

Chart of the Week

PCE Inflation
(QoQ, annualized)



Commentary

In the short run, inflation can be influenced by factors like wage controls and tariffs. But in the long run, inflation results when the money supply grows faster than the production of goods and services.

If inflation is stable, markets will build the inflation into pricing. For example, if inflation is always 10%, then rental contracts will include an automatic 10% annual rent hike, wage contracts will include an automatic 10% cost-of-living increase, loan contracts will add an automatic 5% to compensate lenders for inflation, etc. With the possible exception of taxes, stable inflation can end up having the same effect as no inflation. A tax code that specifies higher tax rates for higher income levels can push people into higher tax brackets as inflation boosts their dollar earnings, even though their purchasing power hasn't changed.

Deflation is considered a problem because, if people anticipate that prices are going to fall, they will delay purchases to take advantage of lower prices in the future. In turn, this will reduce consumer spending in the present. A counter example is the computer industry, which has seen massive price declines for decades while continuing to experience strong consumer demand.

Snapshots

Figure 1. Comparison of Inflation Measures

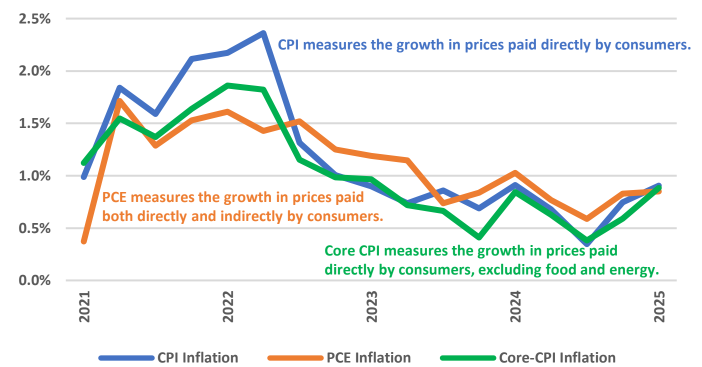


Figure 2. Current Inflation Rates Among Largest Economies

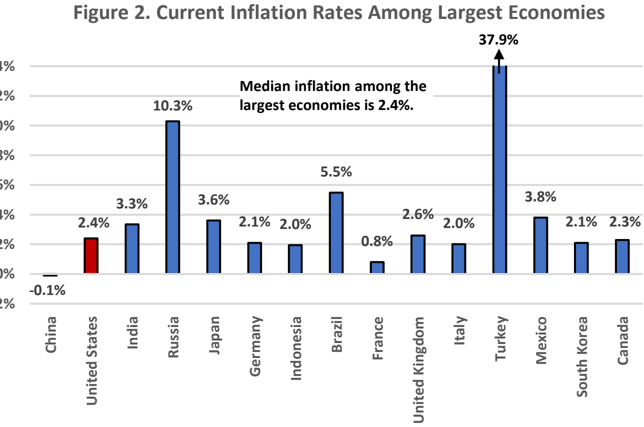
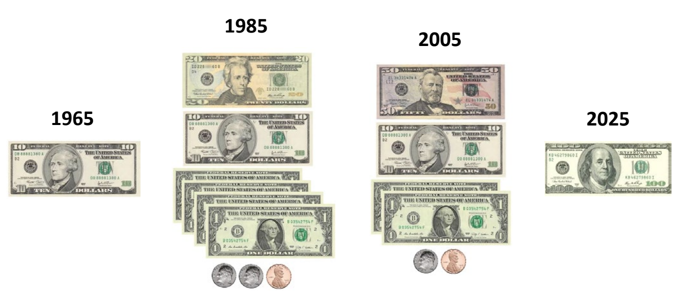


Figure 3. The Effect of Inflation on Purchasing Power



These four piles of money have the same purchasing power. For example, in 1965, $10 would buy 50 loaves of white bread. By 1985, those same 50 loaves cost around $34. They cost $62 in 2005 and $100 today.

The Economic & Financial Research Team


John Suter, VP


Antony Davies, Director


Sam Kem, Sr. Analyst

Email: EconomicResearch@nrucfc.coop

SOLUTIONS
Economic & Market Watch

May 12, 2025

Economic & Market Watch Dashboard

Key Indicators

INTEREST RATES[1]

	Current	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2
Fed Funds Target[2] (%)	4.50	4.50	4.25	4.00	3.75	3.75
SOFR (%)	4.28	4.10	3.85	3.60	3.40	3.20
2Y UST (%)	3.99	3.75	3.60	3.50	3.45	3.35
5Y UST (%)	4.10	3.85	3.80	3.75	3.70	3.65
10Y UST (%)	4.45	4.20	4.15	4.10	4.10	4.05
30Y UST (%)	4.88	4.55	4.50	4.45	4.40	4.40

ECONOMY

	Current	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2
PCE Inflation (YoY %)	2.3	2.6	2.3	2.5	2.4	2.5
CPI Inflation (YoY %)	2.4	3.2	2.6	2.7	2.8	2.8
Real GDP (QoQ %)	(0.3)	0.5	0.5	1	1.1	1.6
Unemployment (%)	4.2	4.0	4.2	4.1	4.1	4.2
Consumer Spending (QoQ %)	1.8	0.8	0.7	1	1.4	1.6
Industrial Production (YoY %)	1.3	0.0	(0.4)	(0.2)	1.1	0.7

Equities & Currency

	Current	Year ago
DJIA	42,267	39,432
Nasdaq	18,549	16,388
S&P 500	5,805	5,221
US Dollar Index	$1,238.11	$1,253.76

Commodities

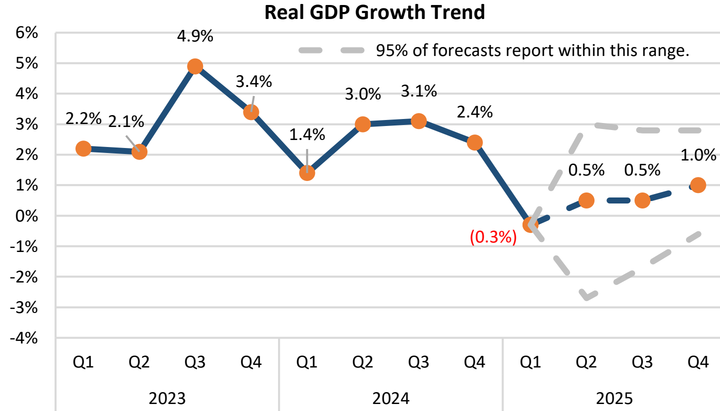
	Current	Year ago
Crude Oil (Per Barrel)	$63.15	$79.12
Natural Gas (Per MMBtu)	$3.66	$2.39
Coal (Per Short Ton)	$9.89	$14.25
Gold (Per Ounce)	$3,337.90	$2,324.60
Corn (Per Bushel)	$4.46	$4.72
Soybean (Per Bushel)	$10.61	$11.98

Industry

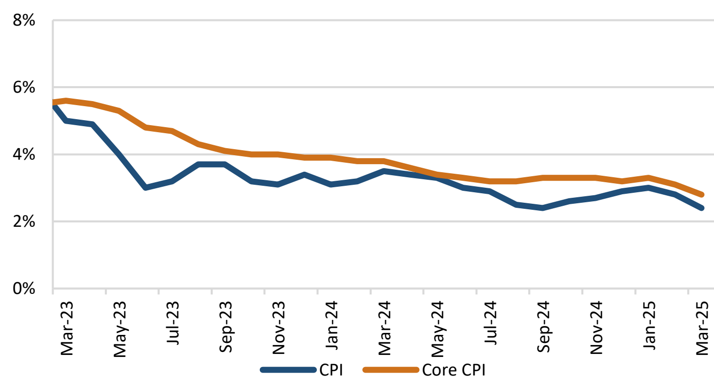
	Current	Year ago
Natural Gas Storage (Billion Cubic Feet)	2,145	2,557
U.S. Daily Power Consumption (MWh)	10,686,172	11,343,921
World Container Index (Per 40ft)	$2,076	$3,159

Forecasts

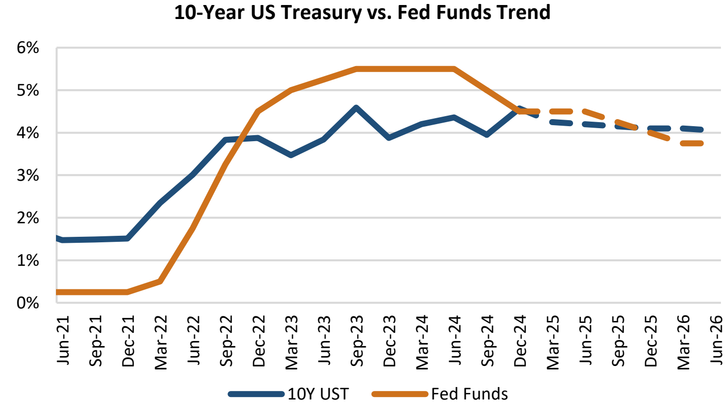
Real GDP Growth Trend



Headline vs. Core Inflation



10-Year US Treasury vs. Fed Funds Trend



[1] Unless otherwise indicated, forecasts are from the Blue Chip Professional Forecasters.
[2] Target rate forecast is based on futures market contracts.

Source: Blue Chip Financial Forecasts, Trading Economics, Moody's Analytics, Statista, Trading Economics, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, U.S. Energy Information Administration, U.S. Treasury Department, Federal Reserve Bank of Atlanta, Federal Reserve Bank of New York, Federal Reserve Bank of St. Louis, International Monetary Fund, World Bank, University of Michigan, The Conference Board.