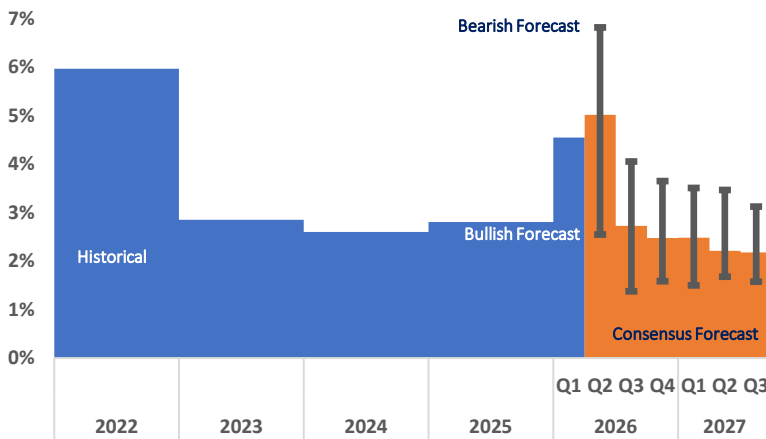


Briefing

- There is no perfect measure of inflation. The Consumer Price Index (CPI) includes only prices directly paid by consumers, while the Personal Consumption Expenditures Index (PCE) includes prices paid on behalf of consumers (**Chart of the Week**). For example, health insurance premiums come directly out of consumers' pockets and so are counted in both PCE and CPI. However, medical costs paid by insurance companies are counted in PCE but not CPI. Measuring inflation becomes more difficult when comparing prices across countries. Housing costs weigh more heavily in U.S. inflation numbers than in European numbers because Europeans don't count the opportunity cost of owning a home. Similarly, healthcare and higher education costs in Europe figure less prominently in inflation calculations because they are paid indirectly through taxes rather than directly through insurance and tuition (**Figure 1**).
- Inflation erodes the purchasing power of money. The higher prices go, the less a dollar can purchase. In 1980, a dozen Grade A large eggs cost 84 cents. In 2025, the price averaged \$4.25. With respect to eggs, the dollar lost 80% of its purchasing power since 1980. The decline in purchasing power varies by product. Over the same period, the price of a gallon of unleaded gas rose from \$1.25 to \$3.26. In terms of gas, the dollar has lost 60% of its value. The matter is further complicated by changes in quality and size. In terms of housing, the dollar has lost 84% of its value since 1980. But because houses are larger than in 1980, in terms of square feet of housing, the dollar has only lost 77% of its value (**Figure 2**).

Chart of the Week

PCE Inflation Forecasts



Commentary

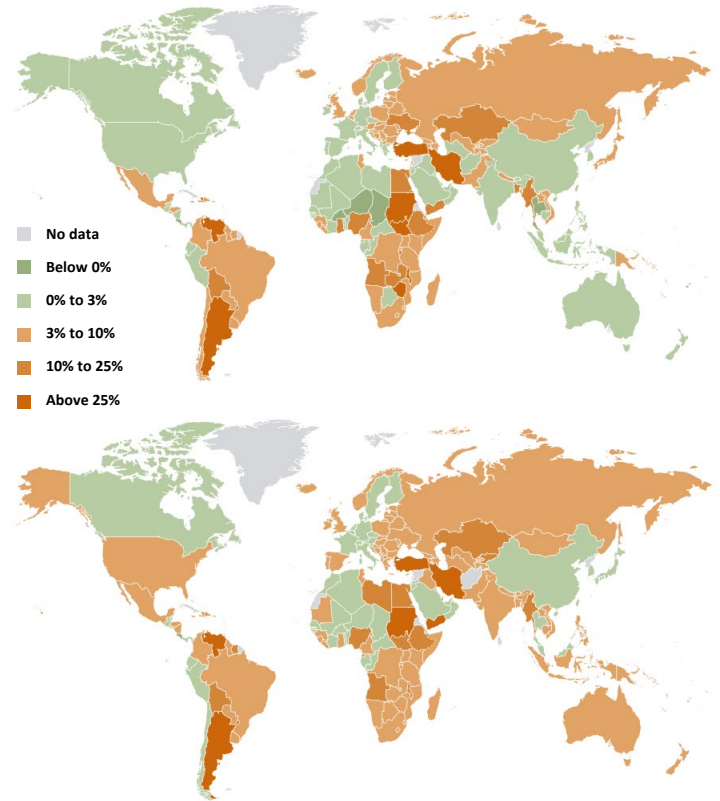
In the short-run, inflation can be influenced by factors like wage controls and tariffs. But in the long-run, inflation results when the money supply grows faster than the production of goods and services.

If inflation is stable, markets will build the inflation into pricing. For example, if inflation is always 5%, then rental contracts will include an automatic 5% annual rent hike, wage contracts will include an automatic 5% cost of living increase, loan contracts will add an automatic 5% premium to compensate lenders for inflation, etc. In most cases, stable inflation can have the same effect as no inflation. Problems arise when the inflation is unexpected. It will tend to get reflected in prices of consumer goods before it gets reflected in wages. It also benefits borrowers with fixed interest rate loans because they are locked into a lower interest rate than inflation warrants.

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. Consumer Inflation 2025 (Upper) & 2026 (Lower, Projected)



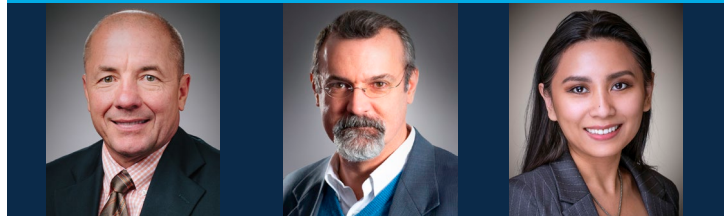
Source: International Monetary Fund.

Figure 2. The Effect of Inflation on Purchasing Power



In 1965, a loaf of white bread cost 30 cents. By 2025, the price of that same loaf had grown to \$2.57. Relative to a loaf of bread, the dollar had lost 89% of its purchasing power since 1965.

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Key Indicators

INTEREST RATES ¹	2026			2027		
	Current	Q3	Q4	Q1	Q2	Q3
Fed Funds Target ² (%)	3.75	4.00	4.00	4.00	4.00	4.00
SOFR (%)	3.62	3.55	3.50	3.43	3.35	3.28
2Y UST (%)	4.11	3.77	3.71	3.66	3.63	3.60
5Y UST (%)	4.14	3.96	3.92	3.88	3.86	3.84
10Y UST (%)	4.38	4.36	4.31	4.28	4.26	4.25
30Y UST (%)	4.86	4.93	4.89	4.85	4.83	4.81

ECONOMY	2026			2027		
	Current	Q3	Q4	Q1	Q2	Q3
PCE Inflation (YoY %)	3.8	2.8	2.5	2.5	2.3	2.1
CPI Inflation (YoY %)	4.2	2.9	2.5	2.4	2.3	2.2
Real GDP (QoQ %)	1.6	1.8	1.9	2.0	2.0	2.1
Unemployment (%)	4.3	4.4	4.4	4.4	4.4	4.4
Consumer Spending (QoQ %)	1.4	1.7	1.9	1.9	2.0	2.0
Industrial Production (YoY %)	1.7	1.4	1.2	1.6	1.7	1.7

Equities & Currency

	Current	Year ago	YoY Δ
DJIA	52,104	44,095	18.2%
Nasdaq	25,576	20,370	25.6%
S&P 500	7,411	6,205	19.4%
US Dollar Index	\$1,223.11	\$1,190.16	2.2%

Commodities

	Current	Year ago	YoY Δ
Crude Oil (Per Barrel)	\$70.12	\$65.11	7.7%
Natural Gas (Per MMBtu)	\$3.20	\$3.46	(7.4%)
Coal (Per Short Ton)	\$14.32	\$10.99	34.9%
Gold (Per Ounce)	\$4,034.0	\$3,303.3	22.2%
Corn (Per Bushel)	\$4.03	\$4.21	(4.3%)
Soybean (Per Bushel)	\$11.13	\$10.24	8.7%

Industry

	Current	Year ago	YoY Δ
Natural Gas Storage (Billion Cubic Feet)	2,835	2,884	(1.7%)
U.S. Daily Power Consumption (MWh)	12,924,596	13,221,799	(2.3%)
World Container Index (Per 40ft)	\$4,166	\$2,983	39.7%

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

Sources: © Oxford Economics, Blue Chip Financial Forecasts, Trading Economics, Moody's Analytics, Statista, Oxford 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.

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Forecasts

