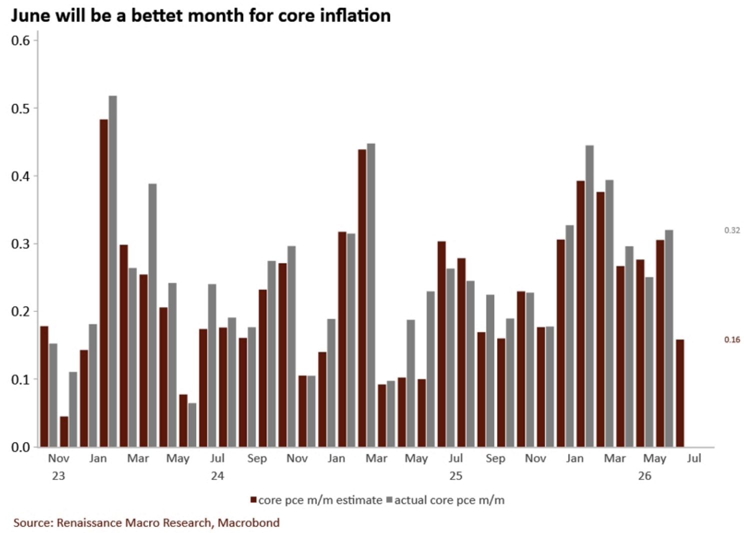
July 20, 2026

Dutta's Economic Daily

Hawks still have the baton

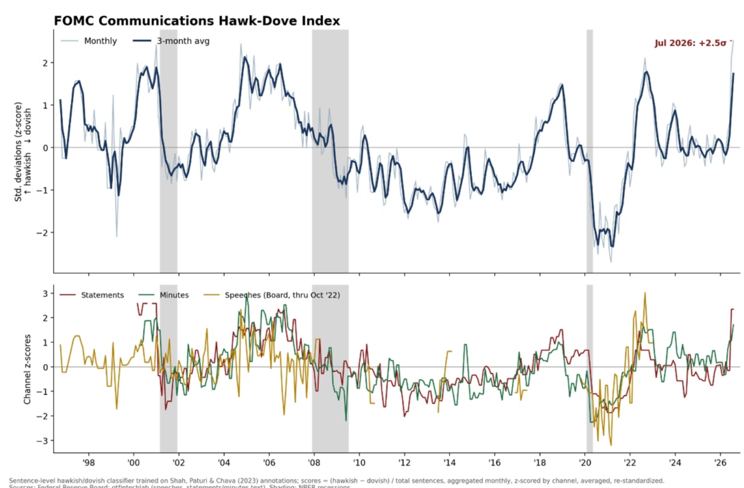
Inflation does not change anything

- Translating the details of the Consumer Price Index (CPI) and Producer Price Index (PPI) points to a benign reading for core PCE in June. We estimate an increase of just 0.16 percent. However, the weakness in non-housing services was relatively narrow in scope. Thus, there is room for these areas to push inflation up in the months ahead.



- At any rate, a bet on no rate hikes in 2026 is a bet that every inflation print between now and year end will be like June. That’s possible, but given the experience of the last few years, an unlikely outcome. The market sees the odds of a hike next week as low, but a hike is still likely in September. If every meeting is a coin-flip, assume it comes up a hike at least once.

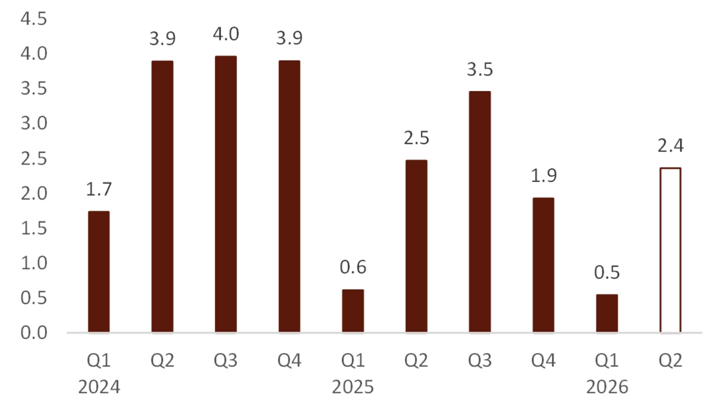
- For the Fed, the inflation data does not materially change anything. Speakers last week were hawkish, on net. Regional Fed Presidents Hammack, Logan, Musalem along with Governors Waller, Cook and Jefferson skewed hawkish. We replicated a measure of Fed communications – the higher the score, the more hawkish the commentary is. The figure speaks for itself.



Consumption tailwinds fading

Following last week's retail sales report, our tracking estimate of real consumers' spending advanced 0.4ppt to 2.4 percent SAAR. This would follow annualized growth of just 1.3 percent in the previous two quarters. While the bounce is welcome, several positive impulses are fading as we head into the second-half.

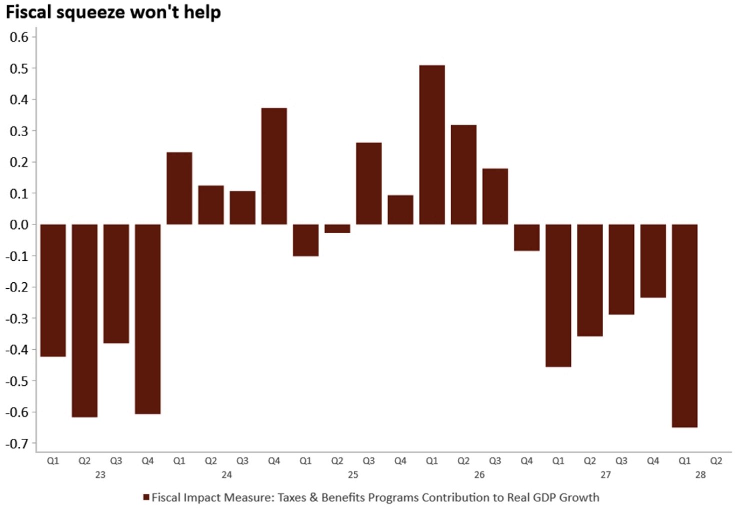
Real consumption to post solid Q2
Real PCE (QoQ % SAAR)



Source: Renaissance Macro Research, Haver Analytics

- First, tax refunds provided a lift to consumption in Q2; however, this tailwind fades in the coming quarters. Refunds ran about $30 billion above 2025, a front-loaded impulse. The contribution begins to fall now. Indeed, according to the Brookings Fiscal Impact Measure, the contribution of taxes and benefits programs to real GDP growth turns negative by Q4.

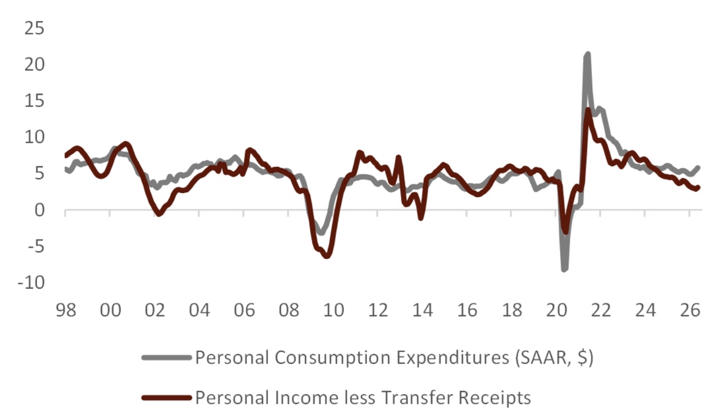
Fiscal squeeze won't help



Source: Renaissance Macro Research, Macrobond

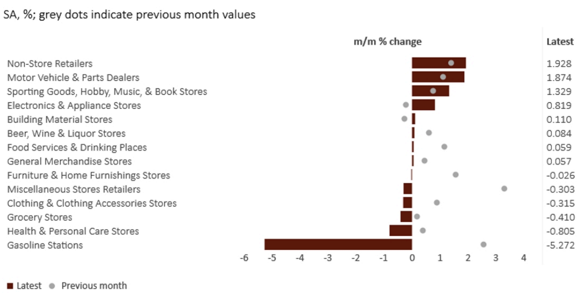
- Second, in the face of a spike in gasoline prices, consumers have drawn down saving and to a lesser extent, seen some uptick in revolving credit card balances. If households are smoothing out there consumption on the assumption the gas price shock is temporary, then a drop in gasoline prices likely gets saved on the other side. Put differently, it's tough to see the saving rate falling as quickly in H2.

Nominal consumption running about 2.5-3.0ppt faster than income
(three-month average, % change, year-ago)



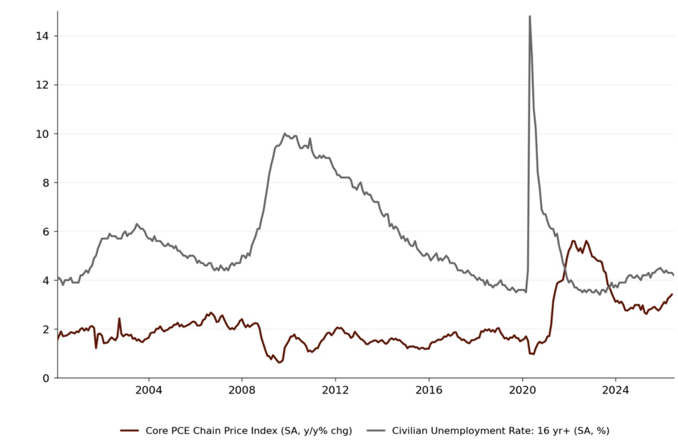
Source: Renaissance Macro Research, Haver Analytics

Monthly change in retail sales by category: June 2026



Source: Renaissance Macro Research, Macrobond, USCB

Jobs mandate met, inflation mandate still missed

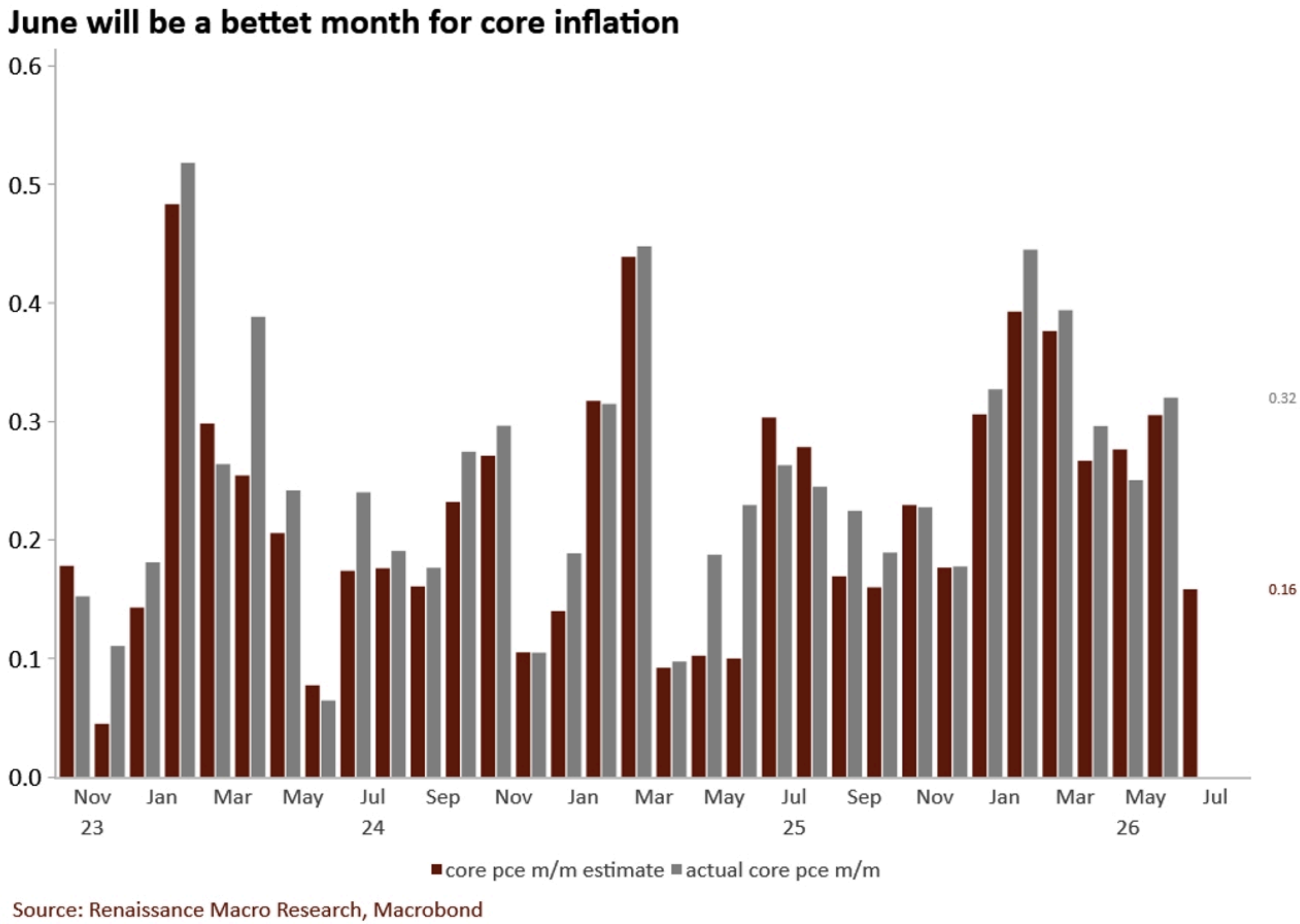


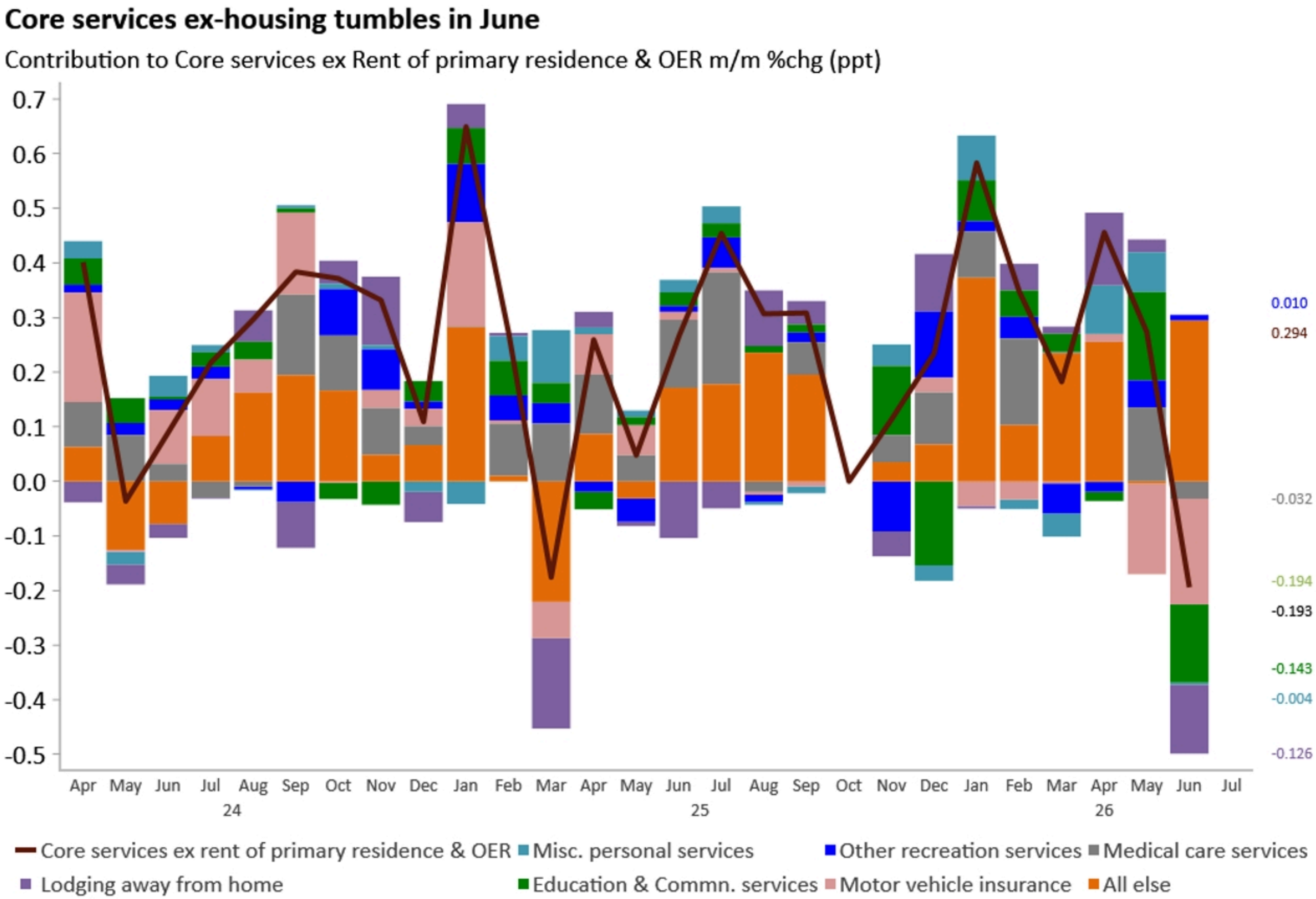
Source: Renaissance Macro Research, Haver Analytics

- Third, we're going to see a bit of an air-pocket mechanically over the summer as the lift from the World Cup eases. More games were played in June than in July so the lift to PCE was likely somewhat higher in Q2 than it will be in Q3. I'd add that Prime-Day likely flattered June retail sales and July's expense.

Risk appetite threatened?

For the Fed, the calculus is clear. The economy is operating much closer to its growth and employment objectives than it is its inflation objective. This creates a bias to tighten policy. The odds favor a hike. At the same time, there is a good case to make that consumption cools off as the year progresses. That's not the best set-up for risk appetite.


June will be a bettet month for core inflation
0.6
0.5
0.4
0.3
0.2
0.1
0.0
0.32
0.16
Nov 23
Jan
Mar
May
Jul 24
Sep
Nov
Jan
Mar
May
Jul 25
Sep
Nov
Jan
Mar
May 26
Jul
core pce m/m estimate
actual core pce m/m
Source: Renaissance Macro Research, Macrobond



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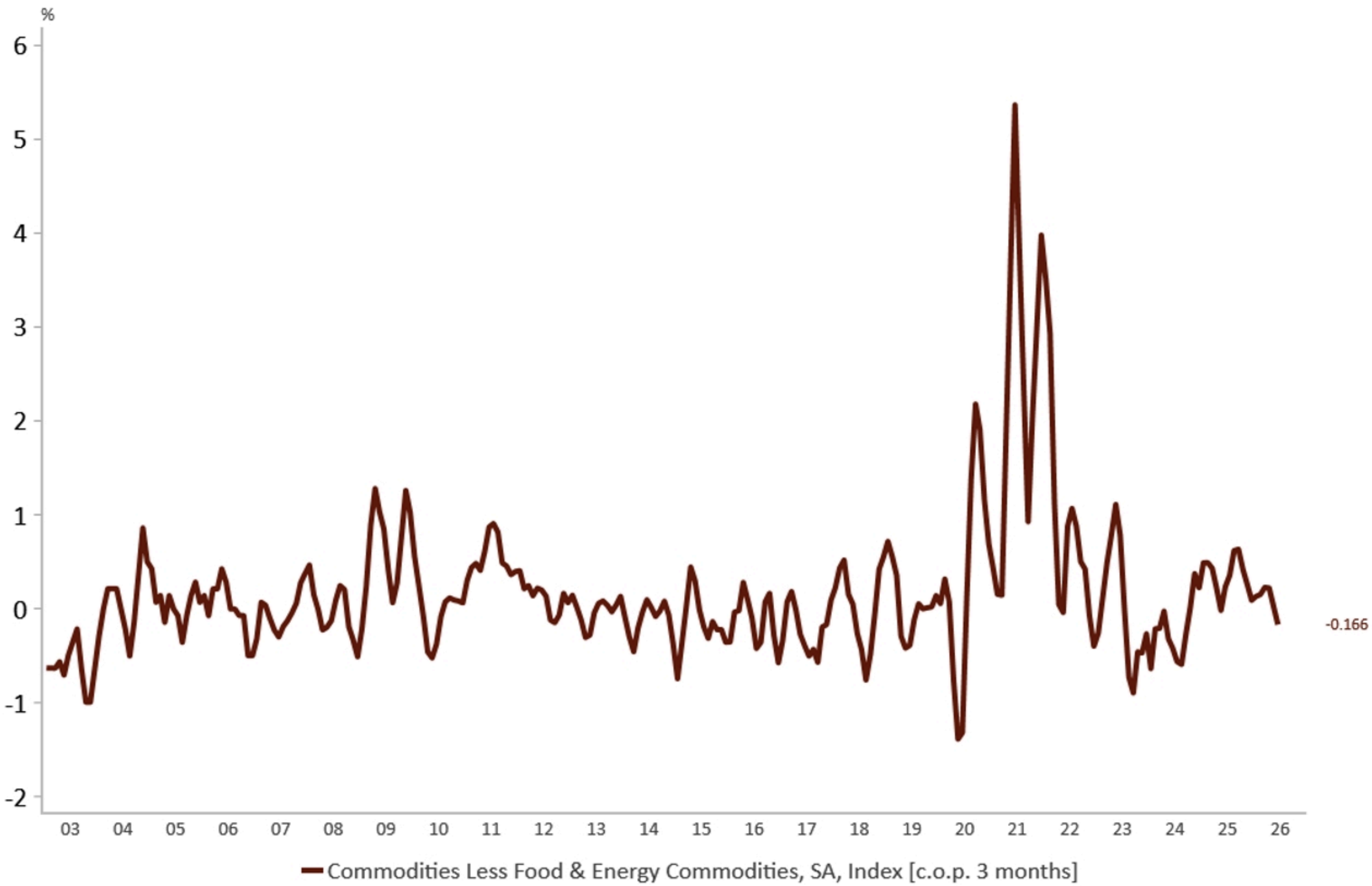
Tariff pressure seems to be fading



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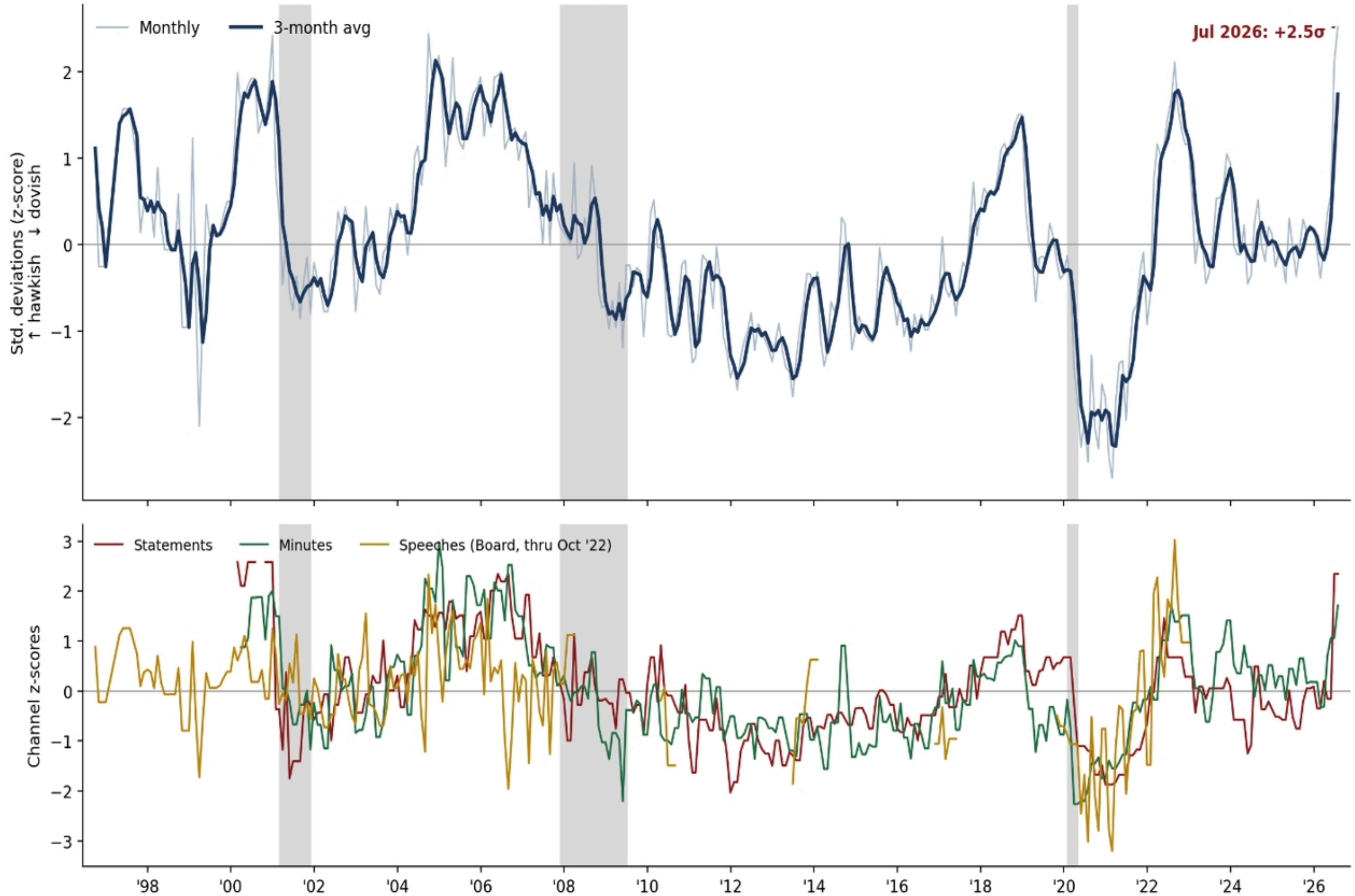
FOMC Communications Hawk-Dove Index



Sentence-level hawkish/dovish classifier trained on Shah, Paturi & Chava (2023) annotations; scores = (hawkish − dovish) / total sentences, aggregated monthly, z-scored by channel, averaged, re-standardized.
Sources: Federal Reserve Board; gtfintechlab (speeches, statements/minutes text). Shading: NBER recessions.

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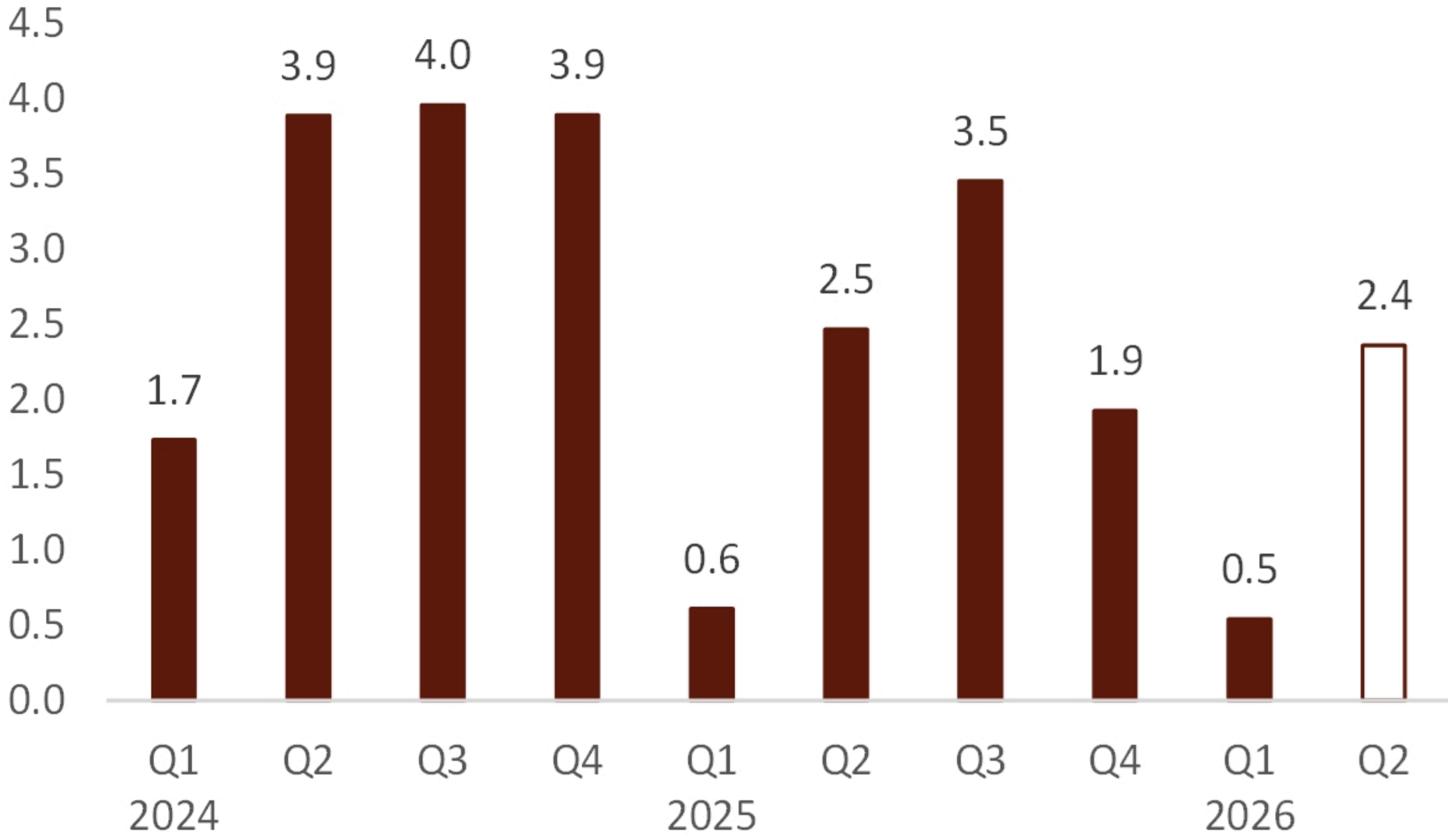

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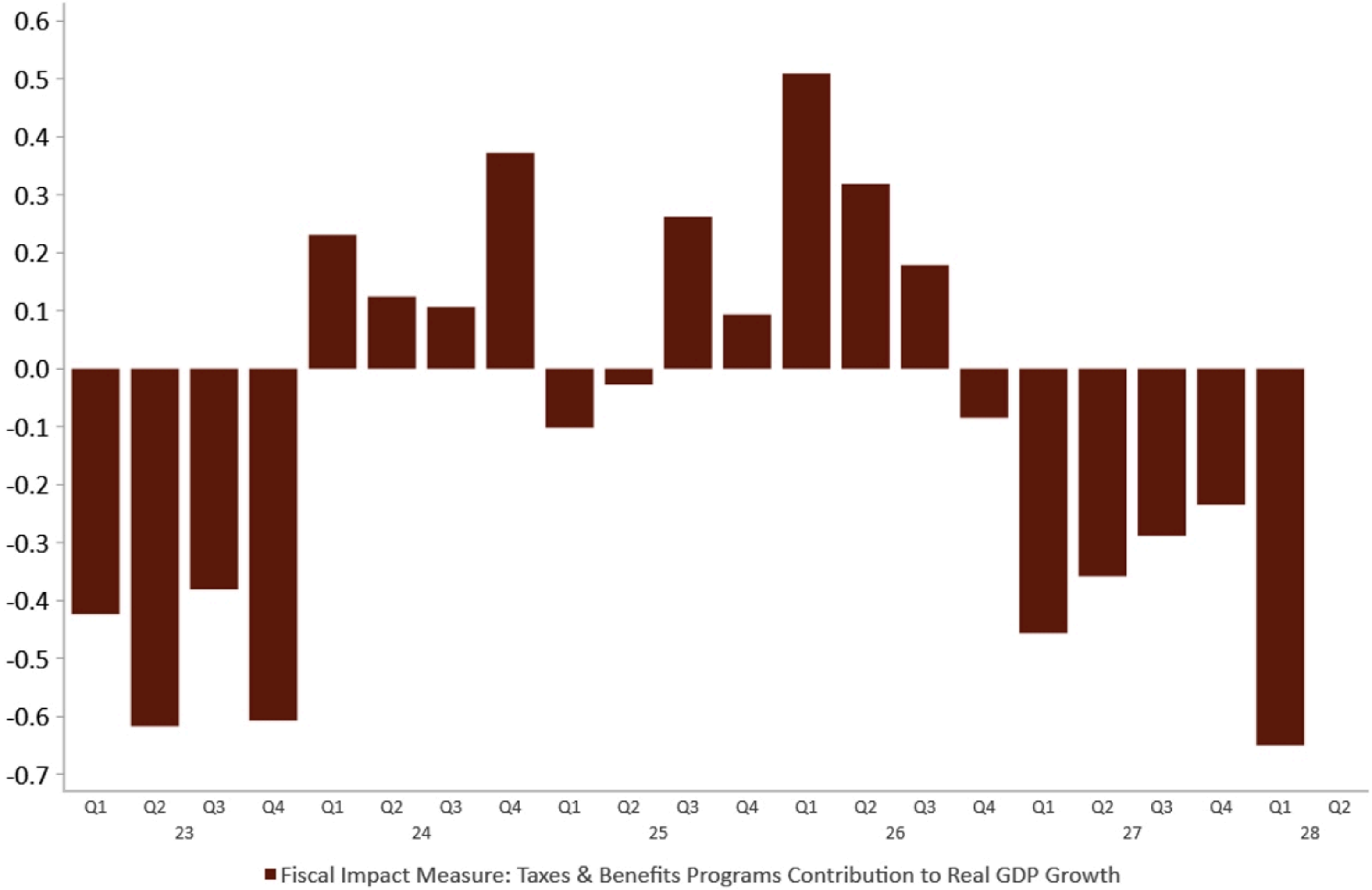

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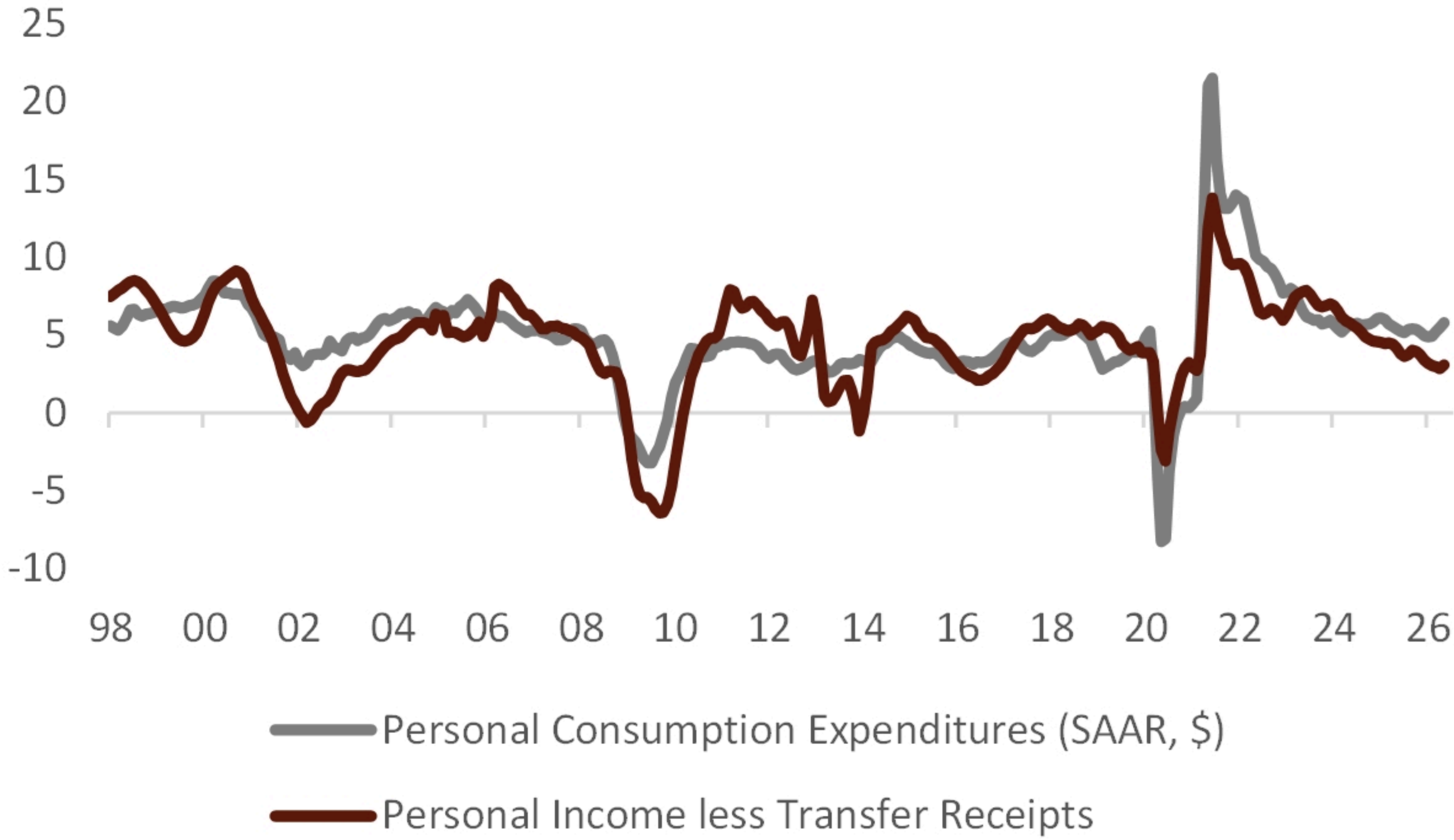

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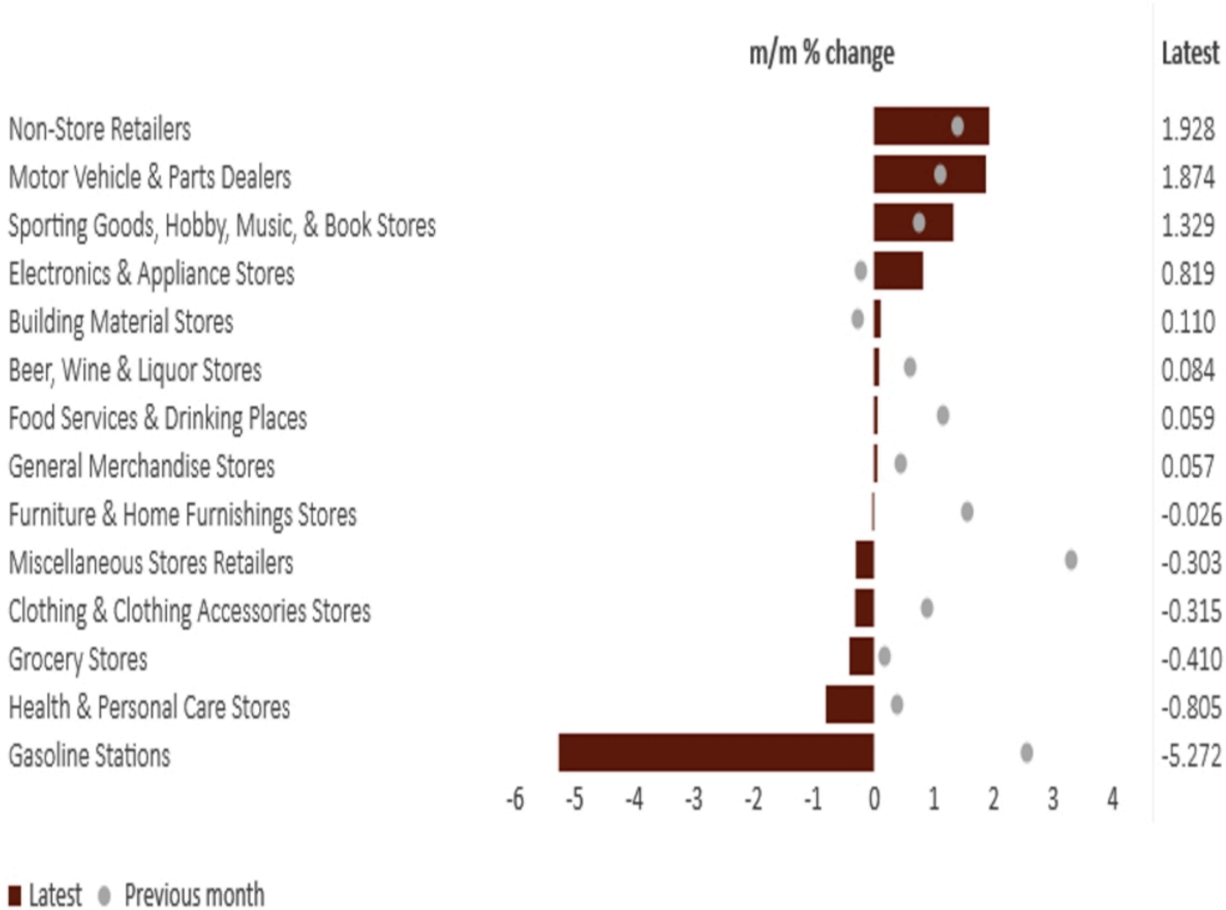
Monthly change in retail sales by category: June 2026

SA, %; grey dots indicate previous month values



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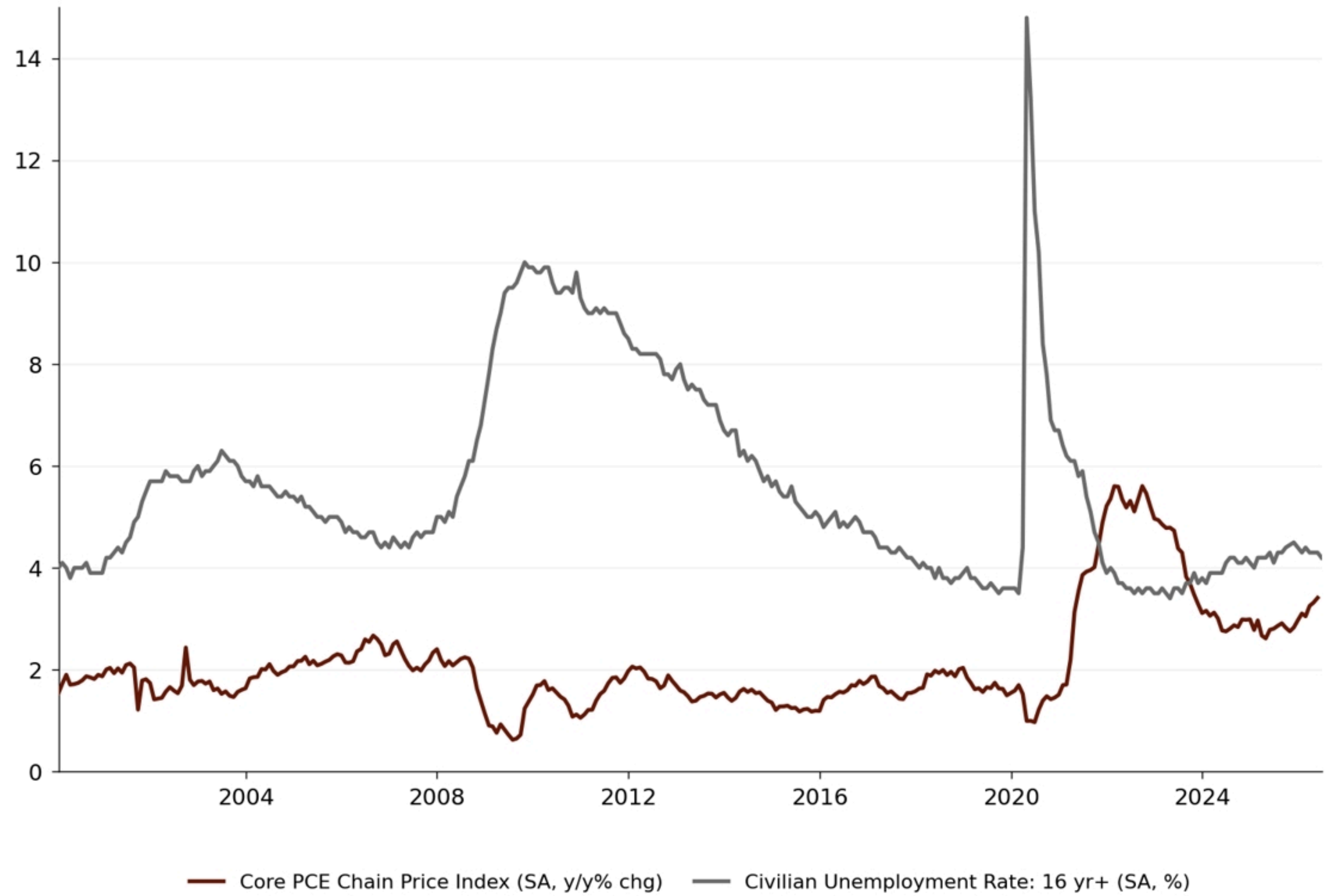

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