The Daily Dish

This Week's Data

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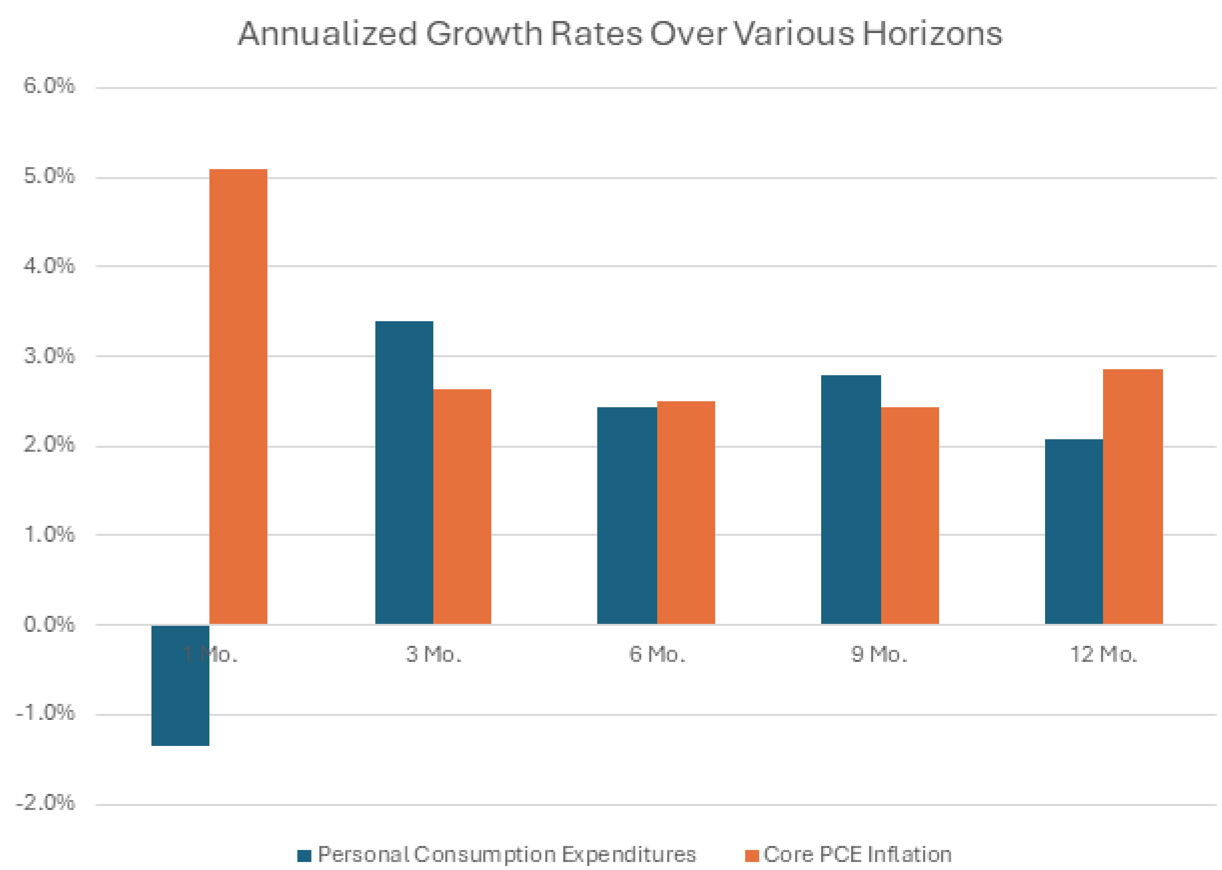
Yesterday the Bureau of Economic Analysis released the January report on Personal Income and Outlays, which contains the Federal Reserve's preferred measure of inflation – the growth of the personal consumption expenditures (PCE) price index. Much of the reaction to the report (see, e.g., Bloomberg) focused on the one-month readings for core PCE inflation and real consumption expenditures.

Looking at January in isolation yields a troubling picture. Inflation jumped to 5.1 percent (leftmost orange bar in graph) and real consumption spending fell at a rate of 1.3 percent (leftmost blue bar), both at an annual rate. The combination spells stagflation, bad news, and a Fed on the hot seat to make a move in one direction or another.



But a different picture emerges when looking over longer horizons. For comparison, the graph also displays the annualized rates over the past 3 months, 6 months, 9 months, and 1 year. Viewed from these perspectives, one sees solid real growth in consumption in the 2.5 to 3.0 percent range, and core inflation between roughly 2.0 and 3.0 percent. In other words, an economy growing solidly and inflation that is lower than in the past but not yet firmly anchored at 2 percent.

In those circumstances, there is no reason for the Fed to ease its restrictive monetary policy. It is also not really news. The jump in inflation was present in the Consumer Price Index report out weeks ago, and January retail sales pointed to weak consumption spending.

The other major reports shed light on the second major component of private-sector demand: non-residential fixed investment (NRFI). In the revisions to 4th quarter (2023) gross domestic product, the growth rate of NRFI was raised to 2.4 percent. This is a solid jumping off point for 2024. Unfortunately, the January report on new orders for “core” (non-defense, excluding aircraft) capital goods showed a very weak 0.1 percent rise.

All in all, the week’s data were hardly definitive on the near-term path of the economy – they rarely are – so stay tuned for more information in the weeks to come.