U.S. Data Review

- PCE price index: high-side reading in January
- Real consumer spending: likely on track in Q1 despite dip in January

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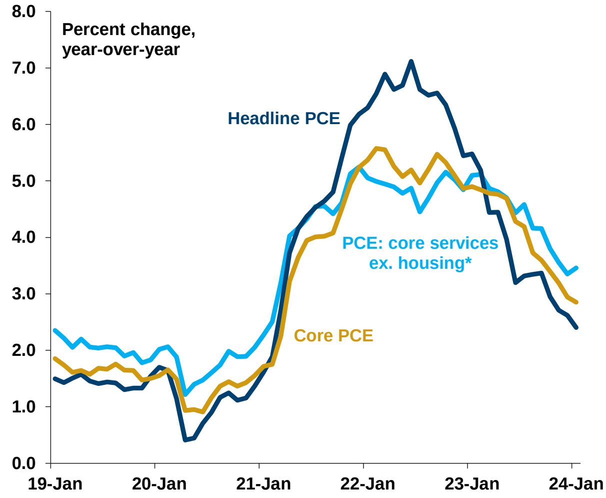
January Inflation and Consumer Spending

- The headline price index for personal consumption expenditures rose 0.3 percent in January (0.345 percent with less rounding), and the core index surged 0.4 percent (0.416 percent; chart, below left). Both readings matched the Bloomberg median forecast, which was informed by previously released brisk readings on both the CPI and PPI. The headline PCE price index increased 2.402 percent on a year-over-year basis, down from 2.622 percent in December 2023 and the expansion high of 7.117 percent in June 2022. The core index rose 2.849 percent year-over-year, down from 2.943 percent in December and the recent peak of 5.575 percent in February 2022 (chart, right).

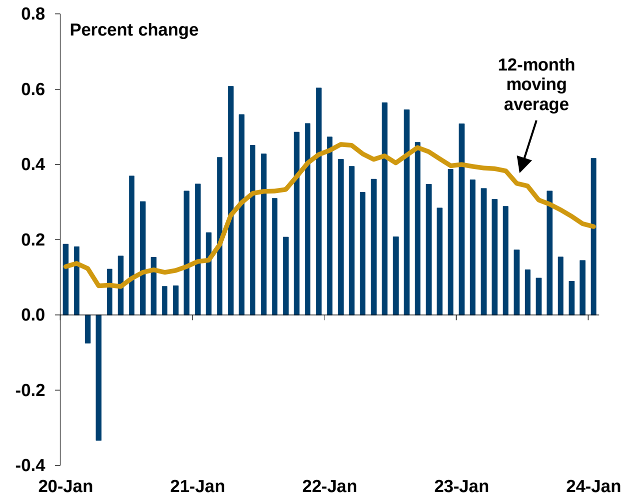
PCE Price Indexes



** Service prices excluding energy and housing services.*
Source: Bureau of Economic Analysis via Haver Analytics

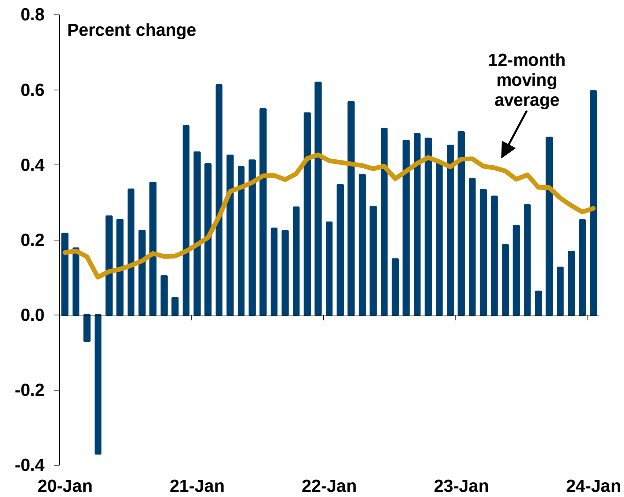
- The energy component fell by 1.4 percent in January (-4.9 percent year-over-year), with a drop of 3.3 percent in in the costs of gasoline and other energy goods contributing importantly to the decline. Food prices jumped 0.5 percent in the latest month (+1.4 percent year-over-year), but the advance followed subdued readings in the previous three months (an average +0.04 percent). The level of the food index in January was substantially above pre-pandemic levels (24.6 percent above the 2019 average), but the trend in food inflation has moderated sharply (down from the cycle peak year-over-year increase of 12.2 percent in August 2022).

Core PCE Price Index



Source: Bureau of Economic Analysis via Haver Analytics

PCE: Core Services Ex. Housing Price Index*

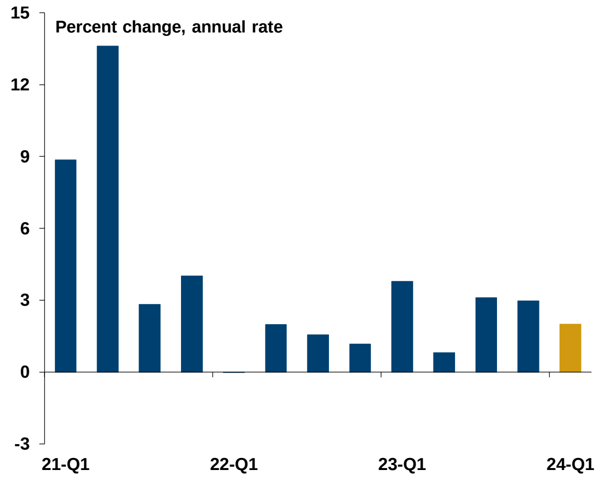


** Service prices excluding energy and housing services.*
Source: Bureau of Economic Analysis via Haver Analytics

- The jump of 0.4 percent in the core component in January deviated sharply from recent restrained readings (average monthly increase of 0.156 percent in the second half of 2023), with the 3-month annualized growth rate accelerating to 2.6 percent in January from 1.6 percent in the prior month (chart on the month/month change, prior page -- left). The distribution of price shifts was wide in January. Goods prices excluding food and energy were restrained, rounding down to no change (-0.6 percent year-over-year). A drop of 3.4 percent in the prices of used motor vehicles stood out on the soft side. Service prices excluding energy service, in contrast, increased 0.6 percent month-to-month (+4.1 percent year-over-year). Housing costs were a source of recurring pressure, with rent of tenant-occupied housing increasing 0.4 percent and imputed rents of owner-occupied housing rising 0.6 percent (+6.0 percent year-over-year and +6.2 percent, respectively). Core services excluding housing, a gauge monitored by Fed officials that correlates with wage dynamics and labor-market tightness, surged 0.6 percent in January after moderating in recent months (3.461 percent year-over year versus 3.349 percent in December and a cycle high of 5.246 percent in December 2021; chart on month-to-month growth, prior page -- right). The three-month annualized growth rate accelerated to 4.1 percent from 2.2 percent in December. The latest reading does not necessarily suggest that the trend core inflation is reaccelerating, but it does speak to the hesitation of Fed officials to declare victory against stubborn inflation. With that in mind, we suspect they will be unwilling to cut the target range for the federal funds rate before the summer.

- Personal consumption expenditures increased only 0.2 percent in January after a jump of 0.7 percent in December. Moreover, activity slipped after adjusting for inflation (-0.1 percent). Outlays for durable goods fell 1.9 percent, as new vehicle sales dropped 4.6 percent; expenditures on nondurable goods eased 0.8 percent. Outlays for services were strong with a jump of 1.0 percent. However, the change occurred after a strong reading in the prior month. Thus, even if consumer spending was flat in February and March, consumer spending in the GDP accounts would increase 1.6 percent in 24-Q1. If real expenditures were to increase 0.1 percent per month in the next two months, consumer spending would register an annualized growth rate of 2.0 percent (chart, right). The projected performance would signal a still-active consumer sector despite a moderating labor market and tight financial conditions.

Growth of Real Consumer Spending*



** The reading for 2024-Q1 is a forecast of 2.0%.*

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America