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Eye of the beholder

You don't have to be a data scientist to know that the meaning of statistics can be bent to fit different—even opposing—narratives. This is especially the case in economics. Take the unemployment rate, for instance. A rise is often seen as a negative sign, but it can also be interpreted as positive. If people previously so discouraged about their ability to get a job—and therefore not counted in the Labor Department's calculations—start to look again, the percent of unemployed suggests optimism.

This duality is present in January's Personal Consumption Expenditures (PCE) index, released last week. The figure showed a decline in inflation's growth rate from a year ago, 2.4%, from what it was in December, 2.6%. That's good news. Prices are not increasing as much as they were last year. Similarly, annualized Core PCE, which strips out volatile energy and food prices, also rose less, 2.8%, than it had in December, 2.9%.

But the monthly readings of both measures rose from January, from 0.1% to 0.3%, for PCE, and from 0.1% to 0.4% for Core. This is concerning because a local trend is more indicative of the way things stand than a comparison to what happened 12 months ago. Looking only at the annualized figure suggests inflation is falling; focusing on Core suggests it is rising.

The Federal Reserve is determined to restore price stability, so the bump in the month-over-month rate likely means it will delay cutting rates. Chair Jerome Powell said officials are unlikely to do so in the mid-March Federal Open Market Committee meeting, and the markets believe him, expecting the range to remain 5.25-5.5%. Thankfully, inflation is much less severe than 2022, but the Fed's fight to return it to its 2% target is not over quite yet.

Views are as of the date above and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.

Personal Consumption Expenditures Price Index (PCE): A measure of inflation at the consumer level.

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