



The Daily Dish

Affordability Check-in, Iran War Edition

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Today is the final day of a two-day meeting of the Federal Open Market Committee (FOMC), presumably Jerome Powell's last as chairman of the Fed. But there is little drama as the FOMC is widely expected to hold rates at the current level. The only potential news is any announcement by Powell of his intention to stay or leave the Board of Governors after his tenure as chair concludes. But that is less a policy issue than an update on the political food fight between the president and the Fed.

Perhaps the most significant economic news of the week will arrive on Thursday, when the Bureau of Economic Analysis releases its initial estimate of gross domestic product (GDP) in the first quarter and the personal consumption expenditures (PCE) price indices for March. The Atlanta Fed [GDPNow](#) pegs first quarter growth at 1.2 percent, a bit lower than the consensus estimate of 2.2 percent.

On the inflation side of the ledger, the March data will include the first impacts of the war in Iran on inflation as measured by the Fed's preferred inflation gauge. Yet even prior to the upward spikes in oil, gasoline, and other prices, there were signs that the Fed was not on track to hit its 2 percent inflation target.

Displayed in the graph below are PCE inflation rates for durable goods, non-durable goods, and services over horizons ranging from the past year (February to February) down to just one month (February at an annual rate). Over the year, the top-line PCE showed 2.8 percent inflation, which reflected inflation on durable goods and services well above 2 percent. (The core consumer price index was 3.0 percent over that period.) Measured over shorter horizons ranging from the previous 9 months down to one month, the general tendency is that inflation was higher.

Indeed, the most recent data are already noticeably hotter, especially for goods. As the

more expensive energy and transportation costs get passed to customers, one can expect much higher inflation in March and succeeding months. The consensus is that March PCE inflation will be 8.7 percent (annual rate) and the core PCE inflation will be 3.7 percent. How persistent these higher rates will be depends on the duration of closure of the Strait of Hormuz and the Fed's ability to keep inflation expectations from drifting north.

So, enjoy the personnel drama today. But buckle up for the real news tomorrow.

