



The Daily Dish

Fed in the Crosshairs

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Friday was a *long* time ago. It was before pesky Uncle Beezelbrox cornered you for a lecture on D.C. as a godless swamp at the holiday cookout. (Enough said on that.) Friday was before the House released bill text of the polysemous Fiscal Responsibility Act (FRA) of 2023, which followed on the heels of the speaker and the president agreeing to a deal in principle to raise the debt ceiling. (Much more to come from AAF on that.)

Friday was when the data threw the conventional wisdom a curveball. The conventional wisdom was that the U.S. economy was faltering and would fall under its own weight, the barrage of Fed rate hikes, a haymaker from a debt-ceiling impasse, or some combination of the above. Nope.

Friday was when the American consumer sector once again proved its resilience. In the April report on [personal income and outlays](#) real consumption spending rose at an annualized rate of 6.2 percent and is up 2.3 percent from April 2022. No cratering in sight, even as the savings rate rose by nearly a percentage point to 4.2 percent. But Eakinomics has been warning you for months that the real threat to the economy was not households – it was business spending.

Friday was when new orders for core capital goods (non-defense capital goods excluding aircraft) – the best predictor of future real investment spending – were reported to have risen by 1.4 percent in April. That translates to an annual rate of 18.2 percent. Not exactly recession-era readings.

With those readings, you can take imminent decline off the table, and that doesn't weigh in with the heft to be a real threat to near-term growth. But Friday was the day the [personal consumption expenditure price index](#) for April revealed that top-line, year-over-year inflation had risen from 4.2 percent to 4.4 percent, core PCE inflation was up from 4.6 to 4.7 percent, and the market-based core inflation rose from 4.6 to 4.7 percent, as well.

Inflation was supposed to be *falling*, not rising, and the Fed was presumed to take another rate hike in June off the table. In the immediate aftermath of the report, Cleveland Fed President Loretta Mester [told](#) CNBC, “Right now, when I look at the data and when I look at what’s happening with the inflation numbers, I do think we are going to have to tighten a bit more.”

For those Fed policymakers with a bias for not raising rates there was a tiny silver lining. Measured at an annual rate, the market-based core PCE inflation has fallen from 5.9 percent in January to 3.7 percent in April.

June is going to be a tough call for the Fed.