



Joint Economic Committee

Republicans

Representative David Schweikert • Vice Chairman

September 2023 PCE Inflation Release

Republican Staff Commentary

KEY TAKEAWAYS

At 8:30am, BEA [announced](#) that in Sep:

- Real DPI (disposable personal income) fell by 8bps m/m. While incomes rose, prices rose faster.
 - Nevertheless, real PCE (personal consumption expenditures) rose by a strong 38bps m/m.
 - A large component of higher consumption spending has been allocated to vacation travel.
 - This strong consumption growth was partly financed by a decline in the personal savings rate.
- Headline PCE inflation printed at 36bps m/m, while core PCE inflation printed at 30bps m/m.
 - Actual PCE inflation was quite close to the JEC macro model's forecast of 38bps.
 - The Cleveland Fed's real-time nowcast was even closer, with only a 1bps error.

The chief economist's longstanding forecast has been that:

1. Tighter fiscal and monetary policy could lower inflation w/o triggering a recession.
2. Absent tighter fiscal and monetary policy, inflation would remain "sticky" above the Fed's 2% target.

While down from its four-decade high, inflation remains far above target. Additional fiscal restraint would help return inflation to 2%.

FEDWATCH

Ahead of the Nov 1 FOMC meeting:

- Options markets are pricing no hike w/ near certainty.
- Options-implied probabilities have become more dovish during Oct.
- Options-implied probabilities suggest no further hikes this cycle, w/ the first cut in June 2024.

The staff suspects the greater dovishness is due to rising risk premia in long-term Treasuries. By some model-based measures, these risk premia have returned to their long-run average. Separate from the Fed's monetary policy decisions, rising risk premia also tighten broader financial conditions b/c long-term Treasury yields are the benchmark for pricing U.S. credit. (E.g., the 30Y mortgage rate is roughly the 10Y Treasury yield plus an additional spread for credit and interest rate risk.).

For more info, see JEC's [coverage](#) of recent Treasury auctions results. Updated each week.

Table 1. Income & Consumption Indicators**10/27/2023**After seasonal adjustment

	Sep 2023	Aug 2023	Change
Income and Outlays (m/m growth)			
Real DPI	-0.08%	-0.11%	0.0%
Real PCE	0.38%	0.06%	0.3%
PCE Price Index (m/m growth)			
Headline	0.36%	0.37%	0.0%
Core (ex. Food and Energy)	0.30%	0.12%	0.2%
PCE Price Index (y/y growth)			
Headline	3.44%	3.45%	0.0%
Core (ex. Food and Energy)	3.68%	3.84%	-0.2%
Personal Savings Rate	3.40%	4.00%	-0.6%

Source: Bureau of Economic Analysis, JEC Republicans

* Discrepancy from monthly figures due to rounding.

Table 2. Inflation Forecast Error**10/27/2023**

	Actual	Forecast	Error
PCE Price Index (m/m growth)			
Headline	0.36%	0.35%	0.01
Core (ex. Food and Energy)	0.30%	0.29%	0.01
PCE Price Index (y/y growth)			
Headline	3.44%	3.46%	-0.02
Core (ex. Food and Energy)	3.68%	3.70%	-0.02

Source: Bureau of Economic Analysis, Cleveland Fed, JEC Republicans