

- **Both overall and core CPI inflation picked up in January, with the biggest increases in months. CPI inflation on a year-over-year basis has been slowing. Inflation will further slow over the course of 2024.**
- **Core services, including housing, has been the primary driver of high inflation in late 2023 and early 2024.**
- **Stronger inflation is the primary reason why the FOMC won't cut the fed funds rate at its next meeting, in early March. PNC does expect fed funds rate cuts later this year.**
- **PNC is moving to slower economic growth in 2024 in its baseline forecast, a change from its previous recession forecast.**

The consumer price index for all items rose 0.3% in January from December, the fastest month-to-month inflation since September. The core CPI, excluding volatile food and energy prices, rose 0.4% in January, the biggest increase since April. This included a 0.3% decline in core goods prices but a 0.7% increase in core services prices. Food prices rose 0.4% in January, with energy prices down 0.9%. Shelter inflation was 0.6% in January, the fastest pace since September. Shelter has been a big contributor to elevated core services inflation over the past couple of years. The price of owner-occupied housing (owners' equivalent rent) was up 0.6% in January, with rents up 0.4%.

On a year-ago basis overall inflation was 3.1% in January, down from 3.4% in December. Core CPI inflation was 3.9% year-over-year in January, the same pace as in December. This is the lowest year-ago core inflation since mid-2021. Inflation picked back up in January after slowing at the end of last year, with both overall and core inflation reaccelerating on a monthly basis in January. Although inflation is now much lower than it was in 2022, it is still well above its pre-pandemic pace and the FOMC's 2% objective.

The Federal Reserve focuses on another inflation measure, the personal consumption expenditures price index, which tends to run a bit more slowly than CPI inflation. The PCE inflation numbers for January will be released on February 29. But the reacceleration in inflation in January is likely to show up in the PCE numbers as well. Core PCE inflation remains well above the Federal Open Market Committee's 2% objective on a year-ago basis (2.9% in December), although it has been at just around 2% annualized over the past six months. The biggest concern with inflation in early 2024 is core services prices. Some of this is coming from strong shelter inflation, but that should fade this year as rent growth slows. Measured rent growth is slowing significantly with some rent measures falling, but these numbers work their way into the rental CPI with a lag.

Higher January CPI inflation is another reason why the FOMC will not cut the fed funds rate at its next meeting, on March 20. The committee wants to see more progress on inflation before it feels comfortable cutting its policy rate. The January reacceleration is likely an aberration; inflationary pressures in the US economy are gradually easing. In particular, slacker in the labor market and slower rent growth will contribute to a slowing in services inflation this year. PNC expects the FOMC to cut the fed funds rate on May 1, by 25 basis points, as inflation slows. PNC then expects three additional 25 basis point rate cuts later this year, which would take the fed funds rate to a range of 4.25% to 4.50% by the end of 2024.

These expected rate cuts will support economic growth in 2024 and 2025. With inflation slowing and the labor market strong in early 2024, PNC is moving to a forecast for slower economic growth this year, a change from its previous baseline forecast for a near-term mild recession. Inflation risks are to the upside. Conflict in the Middle East could increase energy prices and shipping costs. Additionally, the still-tight labor market could keep wage pressures elevated and contribute to continued inflation above the Fed's 2% objective.

Action Economics Survey	Range	Median	Last Actual	PNC's Comment
<b>Fed Funds Rate Target Range Mid-Point</b> (after the FOMC meeting on 3/20/24)	5.38-5.38%	5.38%	5.38%	We expect the first 25 bps rate cut in the funds rate at the May 1 FOMC meeting followed by three more 25 bps cuts by year-end 2024.
<b>Jan Leading Indicators</b> (2/20, Tuesday)	-0.3 to 0.2%	-0.3%	-0.1% (Dec)	Up 0.1%.
<b>Initial Claims, Wk of 2/17/24</b> (2/22, Thursday)	210-220K	217K	212K (2/10/24)	Down to 210K.
<b>Jan Existing Home Sales</b> (2/22, Thursday)	3.800-4.050M	3.975M	3.780M (Dec)	Up to 4.0 million, lifted by lower mortgage rates and a slight bigger supply of existing homes for sale.
<b>Jan New Home Sales</b> (2/26, Monday)	0.660-0.700M	0.678M	0.664M (Dec)	Up to 0.70 million, again benefiting from lower mortgage rates.
<b>Jan Durable Goods Orders</b> (2/27, Tuesday)	-4.5% to 0.5%	-1.3%	0.0% (Dec)	Down 4.0% as civilian aircraft orders (Boeing problems) plummeted. Total shipments rose by 0.7%, Ex-transportations orders and shipments rose by 0.1% and 0.2%, respectively.
<b>Feb Consumer Confidence</b> (2/27, Tuesday)	111.4 – 115.5	114.3	114.8 (Jan)	Down slightly to 113.5.
<b>Jan Advance Trade in Goods</b> (2/28, Wednesday)	-\$90.0 to -\$87.7B	-\$88.5B	-\$87.9B (Dec)	A widening to -\$90 billion, partly due to higher imported oil prices.
<b>Q4 GDP Second Report</b> (2/28, Wednesday)	3.1–3.4%	3.4%	3.3% (Q4 first report)	Unrevised at 3.3%. Real PCE was revised down but construction and net exports were revised up by an offsetting amount.

Action Economics Survey			Last Actual	PNC's Comment
<b>Q4 Chain Price Index Second Report (2/28, Wednesday)</b>	1.5-1.6%	1.5%	1.5% (Q4 first report)	Unrevised at 1.5%.
<b>Jan Personal Income (2/29, Thursday)</b>	0.2-0.6%	0.4%	0.3% (Dec)	Up 0.5%. The 3.2% rise in social security payments added 0.2% to the total rise.
<b>Jan Personal Consumption Expenditure (2/29, Thursday)</b>	0.1-0.5%	0.3%	0.7% (Dec)	Up 0.1%. Goods spending fell but services spending rose by a slightly greater amount. The total and core PCED rose 0.35% and 0.45%, respectively. This pushed the total down to 2.4% Y/Y (vs 2.6% Y/Y in December). The core PCED was 2.9% Y/Y, unchanged from December.
<b>Feb ISM (3/1, Friday)</b>	47.8-49.5	48.6	49.1 (Jan)	Up to 49.5, but still below the "breakeven" level of 50 for the sixteenth straight month.
<b>Jan Construction Spending (3/1, Friday)</b>	0.2-0.4%	0.2%	0.9% (Dec)	Up 0.2%. Unusually cold and snowy weather held down construction activity, as it did to retail sales.
<b>Feb U of Mich Consumer Sentiment (final) (3/1, Friday)</b>	79.0-82.0	79.8	79.6 (Feb prelim)	Down slightly to 79 as higher gasoline prices takes the edge off of recent big gains in consumer sentiment.

## Monthly Calendar of Economic Data: February/March 2024

### Feb 20

Leading Indicators	
Nov	-0.5
Dec	-0.1
Jan	

### Feb 22

Unemployment Claims (000)				
Oct	Nov	Dec	Jan	Feb
211	218	221	203	220
200	233	203	189	212
212	211	206	215	
220	219	220	227	
		203		

Existing Home Sales (000)	
Nov	3.820
Dec	3.780
Jan	

### Feb 26

New Home Sales	
Nov	615
Dec	664
Jan	

### Feb 27

Durable Goods		
	Total	Ex-Transp.
Nov	5.5	0.5
Dec	0.0	0.6
Jan		

CB Consumer Confidence			
	Total	Current	Expect
Dec	108.0	147.2	81.9
Jan	114.8	161.3	83.8
Feb			

### Feb 28

Gross Domestic Product		
4th Qtr (2nd estimate)		
	Real GDP	Price Index
Q1'23	2.2	3.9
Q2'23	2.1	1.7
Q3'23	4.9	3.3
Q4'23(1 <sup>st</sup> )	3.3	1.5
Q4'23(2 <sup>nd</sup> )		

### Feb 29

Personal		
	Income	Spending
Nov	0.4	0.4
Dec	0.3	0.7
Jan		

Feb Chicago PMI

## Monthly Calendar of Economic Data: February/March 2024

Mar 1

ISM Manufacturing Index	
Dec	47.1
Jan	49.1
Feb	

Construction Spending	
Nov	0.9
Dec	0.9
Jan	

	Autos		Light	
	Dom	For	Truck	Total
Dec	2.3	0.9	12.9	16.1
Jan	2.1	0.9	12.0	15.0
Feb				

Feb U Mich. Consumer Sentiment (final)

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