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Consumer Prices, Debt, and Spending

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The consumer price index (CPI) calculation includes a weighted distribution amongst eight major expense categories. The CPI categories and their weights used in the CPI calculations are listed below.

CPI Categories by Weight, December 2022

Housing	32.9%
Commodities	20.9%
Food	13.8%
Energy	7.9%
Health Care	6.8%
Transportation	6.0%
Education	5.3%
Other Expenses	6.4%

For January 2023, Bureau of Labor Statistics reported that the CPI for all items increased 6.4% from the prior year while the price of housing had increased by 7.9%. The housing category is expected to subside as the year progresses due to recent weakness in rents and lower home prices since June 2022.

Consensus expectations are that the Federal Reserve will increase the target rate for federal funds another 0.50% to 5.25% at the upcoming Federal Open Market Committee (FOMC) meeting scheduled for March 21-22. The Fed was slow to increase the target rate after the CPI began to accelerate upwards in 2021 and has been playing catch-up since then.

The US personal savings rate has declined to the lowest level of the last ten years while total consumer credit outstanding has reached a new high. In spite of the credit-enhanced consumer spending, US real GDP increased by only 2.7% in the fourth quarter of 2022. As interest rates rise, the ability of consumers to service existing or additional debt is diminished.

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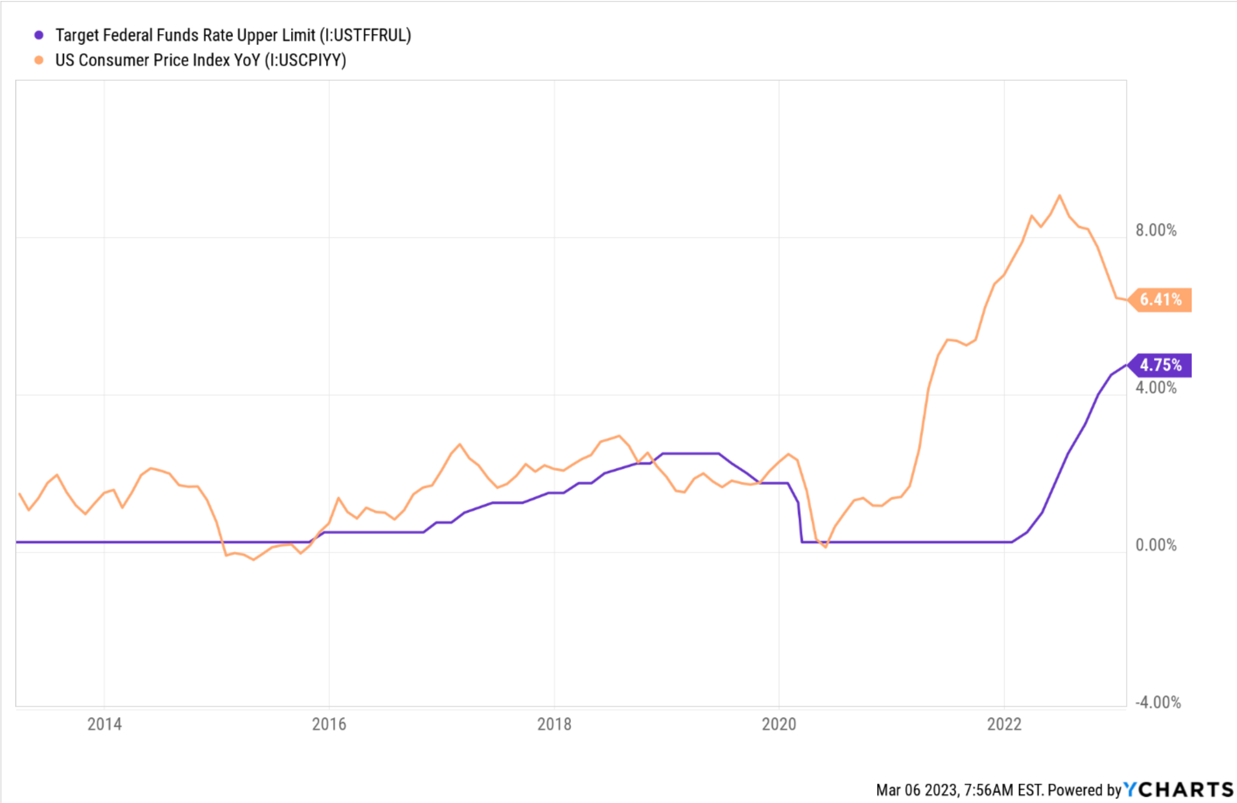

Target Federal Funds Rate Upper Limit (I:USTFFRUL)
US Consumer Price Index YoY (I:USCPIYY)
8.00%
6.41%
4.75%
4.00%
0.00%
-4.00%
2014
2016
2018
2020
2022
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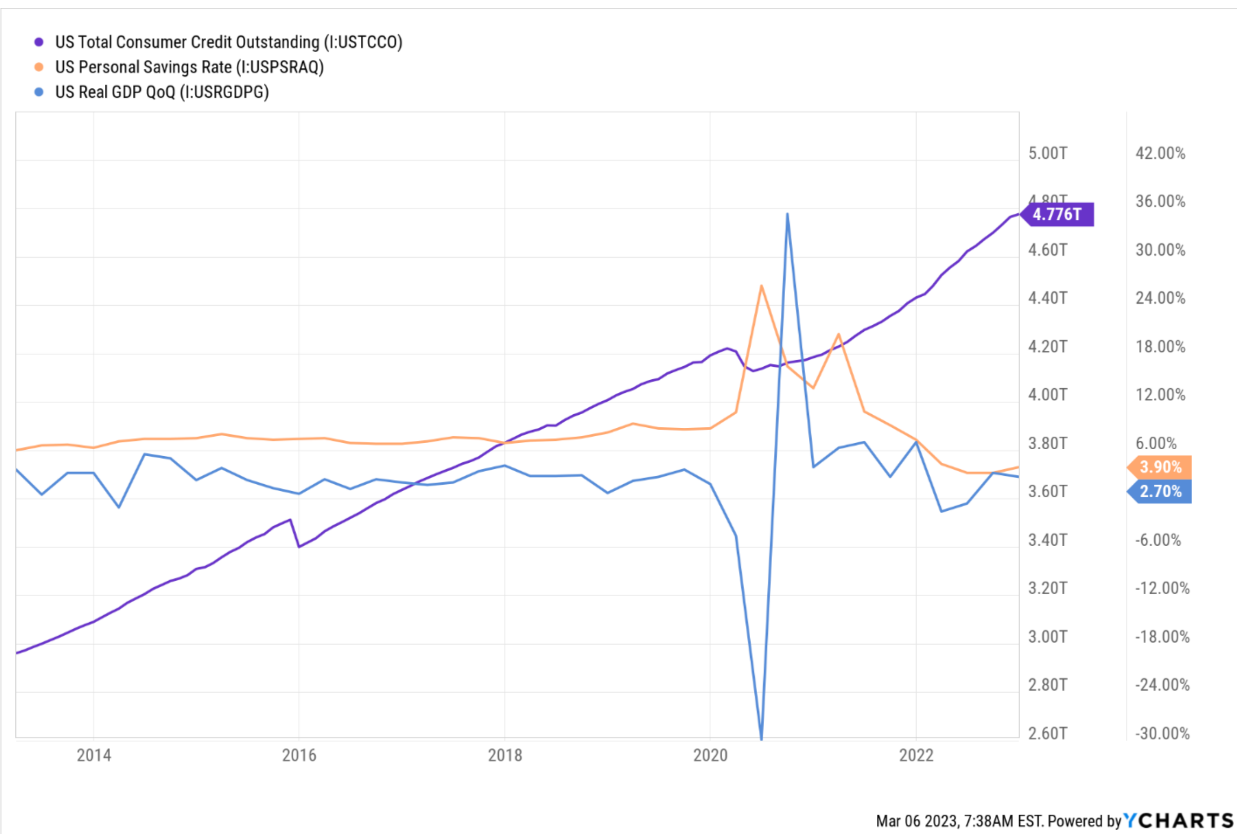

US Total Consumer Credit Outstanding (I:USTCCO)
US Personal Savings Rate (I:USPSRAQ)
US Real GDP QoQ (I:USRGDPG)
5.00T
4.776T
4.60T
4.40T
4.20T
4.00T
3.80T
3.60T
3.40T
3.20T
3.00T
2.80T
2.60T
42.00%
36.00%
30.00%
24.00%
18.00%
12.00%
6.00%
3.90%
2.70%
-6.00%
-12.00%
-18.00%
-24.00%
-30.00%
2014
2016
2018
2020
2022
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Stephanie Pomboy, economist at Macro Mavens, points out that there is a divergence between nominal and real (after inflation) retail sales. In a recent interview Adam Taggart, she said:

> Real retail sales stopped going up the moment the stimulus checks stopped hitting the mailboxes. This is where these narratives that the consumer is so strong leaves me really puzzled because if anyone is looking at unit sales, people are not going out and buying more stuff. They are not buying more iPhones, they are not buying more cars. What they're doing is they are buying the same amount of stuff; they are just having to pay more for it.

US GDP growth for the foreseeable future is likely to be in the range of low single digits. However, if there is a credit contraction due to higher default rates and/or higher interest rates, an economic recession is likely.

If you have any questions or comments, please contact me.

Sincerely,
Robert G. Kahl
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