US Economic Weekly

The risk of easing policy too quickly

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Weekly viewpoint: The Fed wants to avoid backtracking

Fed speakers took to the airwaves to discuss the outlook for monetary policy. The bottom line is the Fed sees risk management considerations as heavily influencing the timing of rate cuts. The Fed sees risks from easing too quickly as outweighing downside risks from maintaining a restrictive stance for too long. The Fed would prefer to avoid backtracking once it starts.

Confidence to cut depends on underlying inflation

Underlying inflation is the rate of inflation that should prevail when the economy is functioning normally, with output equal to potential and unemployment equal to the natural rate. We find that underlying PCE inflation fell to 2.8% at end-2023 and trends support a first rate cut in June. A robust economy could lead to delay (See report: US Economic Viewpoint: What lies beneath: underlying inflation and the confidence to cut).

Data preview: Soft January spending, firm inflation

We estimate that nominal personal income rose by 0.2% in January with a decline in hours worked offsetting solid job and wage growth. We forecast a 0.1% decrease in nominal spending on the month. Retail sales ex food services and autos decreased by 0.9% in January, while unit motor vehicle sales declined. Given our forecast of 0.3% headline PCE inflation, we think real spending decreased by 0.4%. These projections suggest that the saving rate increased three tenths to 4.0%.

We expect core PCE inflation to print at a soft 0.4% m/m in January (0.37% unrounded). We see risk that core PCE could round down to 0.3% m/m. Either way, the wedge between core PCE and core CPI is likely to be small this month. If our forecast proves correct, then the six-month annualized rate of core PCE would likely accelerate from 1.9% to 2.4% and the 3-month annualized rate would pick up from 1.5% to 2.5%. Meanwhile, we expect headline PCE inflation to print at 0.3% m/m (0.33% unrounded), and for the y/y rate to decline by two-tenths to 2.4%.

Data preview: Second estimate of 4Q US GDP

We expect the second estimate of 4Q US GDP to come in at 3.2% q/q saar after printing at 3.3% in the advance estimate. This is largely due to downward revisions to December retail sales. We expect growth in personal consumption of 2.6% q/q saar versus 2.8% q/q saar. Also, equipment investment estimate was revised lower on account of downward revisions to the December industrial production print. Overall, our expected revisions are minor and the second estimate of US GDP should point to a resilient US economy.

IP: Industrial Production

CPI: Consumer Price Index

PPI: Producer Price Index

GDP: Gross Domestic Product

PCE: Personal Consumption Expenditure

FOMC: Federal Open Market Committee

The risk of easing policy too quickly

- The Fed sees risks from cutting too soon more than cutting too late.
- Current trends suggest underlying inflation – the rate of inflation if the economy were running at capacity – could fall to 2.3-2.6% by mid-year, supporting a June cut.
- But the risk that it stops declining - or reaccelerates - is worth monitoring since the US economy continues to surprise to the upside.

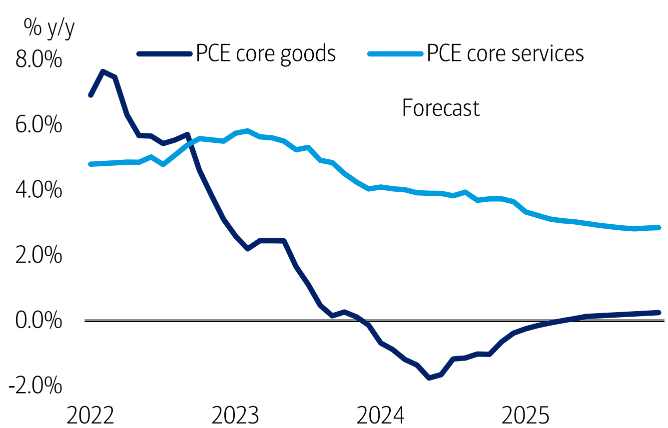
A number of Fed speakers took to the airwaves to discuss the outlook for the economy and monetary policy. While the Fed remains optimistic about the ability of the economy to grow, maintain a low unemployment rate, and reduce inflationary pressures, the bottom line from Fed communications is that risk management considerations dominate when it comes to the timing of rate cuts. According to the minutes from the January Fed meeting, "most participants" thought the risk of moving too quickly to ease the stance of policy outweighs downside risks from maintaining a restrictive stance for too long.

Many Fed members remain concerned about the composition of disinflation. As Board Governor Jefferson noted this week, "the most striking moderation has been in core goods prices…which have declined outright over the past year. Inflation in core services, both in its housing and nonhousing services, has also slowed, but not as much."

Richmond Fed President Barkin said he is "hopeful but still looking for more conviction that the slowing of inflation is broadening and sustainable…[but] much of the inflation drop thus far has come from the partial reversal of pandemic-era goods price increases…[while] shelter and other services inflation remain higher than historical levels." He went on to say that several pandemic-induced shifts in the economy could tilt the balance in favor of less goods deflation and more services inflation.

These shifts include falling participation due to an ageing workforce that could lead to tight labor market conditions and faster wage growth. A second is limited housing supply, which could keep upward pressure on home prices and rents (and, in turn, shelter inflation). Third, de-globalization trends could increase cost structures and reduce the ability for intermediaries to drive efficiency gains. While he noted the Fed is not "in the game of picking the correct makeup of inflation", he concluded "these factors…could hinder the continued disinflation in goods and maintain pressure on services prices."

Exhibit 1: PCE Inflation: core goods and core services
Disinflation has come mainly from falling goods prices



Source: BEA, Haver Analytics, BofA Global Research

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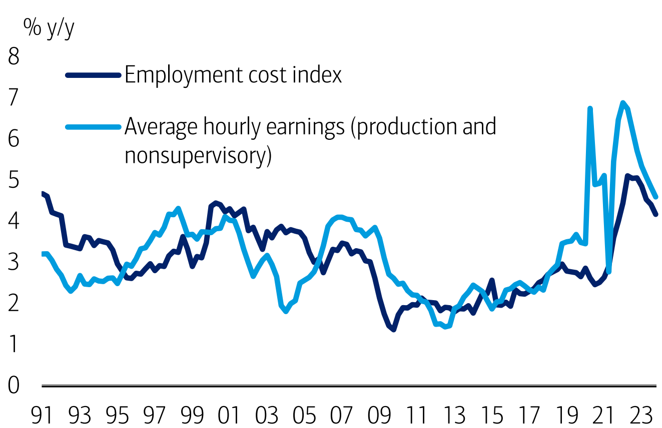
Exhibit 2: US wage growth
Wage growth has slowed, but remains above mandate-consistent rates



Source: BLS, Haver Analytics, BofA Global Research

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Finally, Philadelphia Fed President Harker said he wants to see "disinflation across goods and services" and cautioned markets against expecting cuts "right now and right away." Board Governor Cook noted that "the disinflationary process has been…bumpy and uneven" but expects the decline in observed rents to pass through to shelter inflation over the course of the year. That said, she cautioned against expecting large declines in goods prices – used car prices in particular – to be repeated.

Further progress on underlying inflation is needed to cut

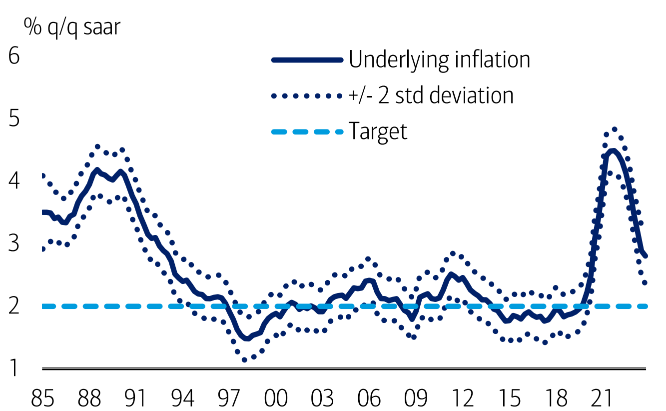
Another way of saying the Fed will not cut "until it has gained greater confidence that inflation is moving sustainably toward 2 percent" is the Fed does not see underlying inflation as consistent with its inflation target. When we refer to underlying inflation, we mean the rate of inflation that would be realized when the economy is functioning normally and running at capacity, with output equal to potential and unemployment equal to the natural rate. Unfortunately, like potential growth or the neutral policy rate, this concept of underlying inflation it is unobservable and must be estimated.

The back-of-the envelope approach to understanding underlying inflation involves looking at measures of core inflation, trimmed mean inflation, and sticky/flexible price indices which strip out volatile components. As we note in a recent report, we think these measures are useful but flawed (see What lies beneath: underlying inflation and the confidence to cut). In particular, they can lead to biased estimates, do not control for the cyclical position of the economy, and do not include inflation expectations.

We develop a better 'mousetrap' for estimating underlying inflation, free of the flaws in traditional measures. Our estimate of underlying PCE (personal consumption expenditure) inflation has fallen from a peak of 4.5% annualized in late 2021 to 2.8% today, based on data through 4Q 2023. Even after accounting for the fact that employment is above its maximum sustainable level, trends in actual inflation have moved underlying inflation lower. In addition, low inflation expectations limited the initial rise in underlying inflation and supported its subsequent decline.

If trends continue, underlying PCE inflation could fall to 2.3-2.6% by mid-year, supporting a first Fed cut in June. But the risk that it stops declining - or reaccelerates - is worth monitoring since the US economy continues to surprise to the upside. A more forward-looking Fed might put more weight on the signal from low inflation expectations and cut earlier, but this Fed is data-dependent and wants more evidence from actual price changes. It also wants to avoid backtracking once it starts. Easing before June appears unlikely without evidence the economy is sharply weakening.

Exhibit 3: Underlying inflation versus the Fed's 2% target
Underlying PCE inflation has fallen, but has more room to go



Source: Federal Reserve, BofA Global Research

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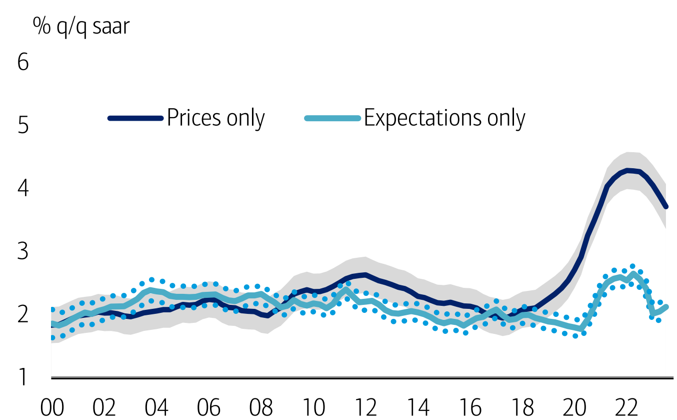
Exhibit 4: Underlying inflation using prices only or expectations only
Low inflation expectations have helped anchor underlying inflation



Source: BofA Global Research. Note: Shaded area and dashed lines are +/- 2 std deviations

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US GDP Tracking

1Q GDP tracking up one-tenth to 1.0%, 4Q up to 3.2%

Housing starts and permits came in weaker than anticipated in January. Looking at the details, the weakness in starts was led by the multi-family segment, although single family starts were also down. December starts were revised up as well. This increased our residential investment estimate for 4Q and a decrease in the 1Q estimate.

PPI (Producer Price Index) came in stronger than expected in January along with a small downward revision to December. PPI is used as a deflator for our structures and inventory accumulation tracking. This led to a decline in the structure and inventory estimates for 1Q but a small increase for 4Q.

Existing home sales in January came in higher than expected along with an upward revision to December. This increased our residential investment estimate for 4Q and 1Q. Also, revenue in the services sector in the quarterly services survey came in stronger than expected for 4Q, implying a higher PCE estimate for both 4Q and 1Q.

On net, this week's data boosted our 1Q US GDP tracking estimate by a tenth to 1.0% q/q saar. Our 4Q tracking estimate also increased by a tenth to 3.2% q/q saar. Next week, January new home sales, durable goods, advance goods trade, construction spending, PCE, February auto sales and 4Q GDP (S) will affect 4Q and 1Q GDP tracking.

Exhibit 5: BofA US GDP tracking estimate (% q/q saar)

1Q GDP tracking is up one-tenth to 1.0% q/q saar largely due to methodological assumptions made on account of the revenue in the services sector in the quarterly services survey (QSS) coming in stronger than expected

Date	Data release	GDP	Final Sales	PCE	Res. Inv.	Struct	Equip	IPP	Gov.	Exports	Imports	Net exports (level)	CIPI (level)
2/14/24	BofA official GDP forecast	1.0	1.5	1.5	-0.5	-1.0	1.0	2.0	1.0	1.0	1.5	-912.0	67.5
2/15/24	Retail Sales	**0.8**	**1.1**	**1.2**	**-0.9**	-1.0	1.0	2.0	1.0	1.0	1.5	-915.8	66.6
2/15/24	Industrial Production	**0.9**	**1.2**	**1.3**	-0.9	**-1.2**	**0.9**	2.0	1.0	1.0	1.5	-915.8	66.6
2/15/24	Retail Inventories, Import Export Prices	0.9	**1.1**	1.3	-1.4	-1.5	0.8	2.0	1.0	**0.2**	**1.4**	**-924.6**	**73.8**
2/16/24	Housing Starts and Permits	0.9	1.1	1.3	**-1.5**	-1.5	0.8	2.0	1.0	0.2	1.4	-924.6	73.8
2/16/24	PPI	0.9	1.0	1.3	-1.5	**-1.6**	0.8	2.0	1.0	0.2	1.4	-924.6	**73.6**
2/22/24	Existing Home Sales	0.9	1.1	1.3	**-1.1**	-1.6	0.8	2.0	1.0	0.2	1.4	-924.6	73.6
2/22/24	Methodological Assumptions (QSS)	**1.0**	**1.2**	**1.5**	-1.1	-1.6	0.8	2.0	1.0	0.2	1.4	-924.6	73.6
	GDP tracking	1.0	1.2	1.5	-1.1	-1.6	0.8	2.0	1.0	0.2	1.4	-924.6	73.6
	Contribution to GDP growth (pp)			1.0	0.0	-0.1	0.0	0.1	0.2			-0.2	0.0
	BofA official GDP forecast	1.0	1.5	1.5	-0.5	-1.0	1.0	2.0	1.0	1.0	1.5	-912.0	67.5

Source: BofA Global Research. Our GDP tracking estimate reflects the mechanical aggregation of incoming data that directly informs the BEA's GDP calculations. The process is distinct from our official published GDP forecast. Boldface cells indicate where data have implications for tracking estimates.

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Exhibit 6: ISM Manufacturing Tracker

ISM manufacturing tracker is at 49.5

	Print	m/m ch
ISM Manufacturing Index (Jan)	49.1	
Empire ISM adj.	48.4	8.7
Phil. ISM adj.	45.2	3.3
Richmond Fed*		
KC ISM adj.		
Dallas ISM adj.		
Chicago ISM adj		
ISM Manufacturing tracker (Feb)	**49.5**	

Source: ISM, Haver Analytics

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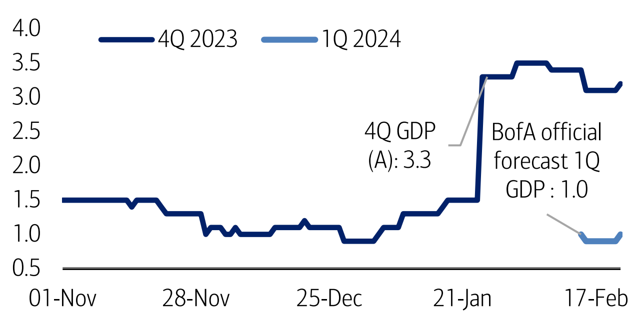
Exhibit 7: GDP tracking evolution (% q/q, SAAR)

1Q GDP tracking is up one-tenth to 1.0% q/q saar; 4Q GDP tracking also up a tenth to 3.2% q/q saar



Source: BofA Global Research

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Data in the past week

February 19-23

This week the focus was on FOMC meeting minutes, Manufacturing and services PMI

Date	Time	Indicator	Period	Actual	Consensus	Previous
2/21/24	7:00	MBA Mortgage Applications	Feb 16	-10.6%	—	-3.3%
2/21/24	14:00	FOMC Meeting Minutes	Jan	—	—	—
2/22/24	8:30	Initial Jobless Claims	Feb 17	201k	216k	213k
2/22/24	9:45	S&P Global US manufacturing PMI	Feb P	51.5	50.7	50.7
2/22/24	9:45	S&P Global US services PMI	Feb P	51.4	51.8	52.0
2/22/24	10:00	Existing Home Sales	Jan	NR	3.97M	3.88M

Source: BofA Global Research, Bloomberg

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Data in the week ahead

February 26 – March 01

Next week the focus will be on Personal Income & Outlays, GDP 4Q (S), U of Michigan Sentiment, Auto Sales

Date	Time	Indicator	Period	BofA Estimate	Consensus	Previous
2/26/24	10:00	New Home Sales	Jan	680k	684k	664k
2/27/24	8:30	Durable Goods Orders	Jan P	-5.0%	-4.5%	0.0%
2/27/24	8:30	Durables Ex Transportation	Jan P	0.2%	0.3%	0.5%
2/27/24	8:30	Core Capital Goods Orders	Jan P	0.1%	0.1%	0.2%
2/27/24	8:30	Core Capital Goods Shipments	Jan P	-0.1%	—	0.0%
2/27/24	9:00	Case-Shiller HPI (yoy)	Dec	5.5%	—	5.1%
2/27/24	10:00	Consumer Confidence	Feb	116.0	114.8	114.8
2/28/24	7:00	MBA Mortgage Applications	Feb 23	—	—	-10.6%
2/28/24	8:30	Wholesale Inventories	Jan P	—	—	0.4%
2/28/24	8:30	GDP (qoq saar)	4Q S	3.2%	3.3%	3.3%
2/28/24	8:30	Personal consumption (qoq saar)	4Q S	2.6%	2.7%	2.8%
2/28/24	8:30	GDP Price Index (qoq saar)	4Q S	1.5%	—	1.5%
2/28/24	8:30	Core PCE (qoq saar)	4Q S	2.0%	—	2.0%
2/28/24	8:30	Advance Goods Trade Balance	Jan	-$89.5bn	-$88.1bn	-$87.9b
2/29/24	8:30	Initial Jobless Claims	Feb 24	195k	—	201k
2/29/24	8:30	Personal Income	Jan	0.2%	0.5%	0.3%
2/29/24	8:30	Personal Spending	Jan	-0.1%	0.2%	0.7%
2/29/24	8:30	PCE Headline Prices (mom)	Jan	0.3%	0.3%	0.2%
2/29/24	8:30	PCE Headline Prices (yoy)	Jan	2.4%	2.4%	2.6%
2/29/24	8:30	PCE Core Prices (mom)	Jan	0.4%	0.4%	0.2%
2/29/24	8:30	PCE Core Prices (yoy)	Jan	2.8%	2.8%	2.9%
2/29/24	8:30	Personal saving rate	Jan	4.0%	—	3.7%
2/29/24	9:45	Chicago Purchasing Managers	Feb	48.0	—	46.0
2/29/24	10:00	Pending Home Sales	Jan	2.0%	1.0%	8.3%
3/01/24	10:00	U. of Michigan Sentiment	Feb F	80.0	79.6	79.6
3/01/24	10:00	Construction Spending (mom)	Jan	0.5%	0.2%	0.9%
3/01/24	10:00	ISM Manufacturing	Feb	49.5	49.2	49.1
3/01/24	All day	Total Vehicle Sales	Feb	—	15.5M	15.0M

Source: BofA Global Research

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Federal Reserve Speakers

Exhibit 8: Upcoming policy speakers
Key speaking engagements and news events*

Date	Time	Speaker
Feb 28	12:00	Fed's Bostic (voter) participates in fireside chat
Feb 28	12:15	Fed's Collins gives remarks, participates in fireside chat
Feb 28	12:45	Fed's Williams (voter) delivers keynote remarks
Feb 29	10:50	Fed's Bostic (voter) participates in fireside chat
Feb 29	11:00	Fed's Goolsbee gives remarks on monetary policy
Feb 29	13:15	Fed's Mester (voter) speaks on financial stability and regulation
Feb 29	20:10	Fed's Williams (voter) participates in moderated discussion
Mar 01	12:15	Fed's Bostic (voter) speaks on economic outlook, real estate
Mar 01	13:30	Fed's Daly (voter) participates in panel discussion with Fed's Schmid

Source: Bloomberg

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Exhibit 9: Summary of Fed speak in the previous week
Below is a summary of key quotes from Fed speakers over the past weeks

Speaker	Date	Quote
Jefferson (Vice Chair)	22-Feb	"We always need to keep in mind the danger of easing too much in response to improvements in the inflation picture." "Excessive easing can lead to a stalling or reversal in progress in restoring price stability
Barkin (Richmond)	21-Feb	"Recent data highlight how price pressures in some sectors are still too high, despite improvement in overall inflation picture."
Bowman (Governor)	21-Feb	Current environment doesn't warrant Fed cutting interest rates; "Certainly not now."
Jan FOMC Minutes	21-Feb	Most Fed Officials Flagged Risks of Cutting Rates Too Quickly
Barr (Vice Chair Supervision)	16-Feb	"Regulators "closely focused" on risks in commercial real estate loans; stepped up downgrades of supervisory ratings on lenders."
Bostic (Atalnta)	16-Feb"	Supports beginning interest-rate cuts at some point this summer, though more favorable inflation could warrant an earlier start."
Daly (San Francisco)	16-Feb	"Three rate cuts is a reasonable baseline expectation for this year."; "To finish the job will take fortitude."; "We will need to resist the temptation to act quickly when patience is needed and be prepared to respond agilely as the economy evolves."; "Price stability is within sight."
Bostic (Atlanta)	15-Feb	"No rush to cut interest rates with US labor market and economy still strong"; cautioned it's not yet clear that inflation is heading sustainably to Fed's 2% target
Barr (Vice Chair supervision)	14-Feb	"I fully support what Chair Powell called a careful approach to considering policy normalization given current conditions."
Goolsbee (Chicago)	14-Feb	"Even if inflation comes in a bit higher for a few months (as many forecasts suggest), it would still be consistent with our path back to target."
Bowman (Governor)	12-Feb	"As long as economic conditions remain where they are, I think that tells me that our policy rate is in the right place."

Source: Bloomberg

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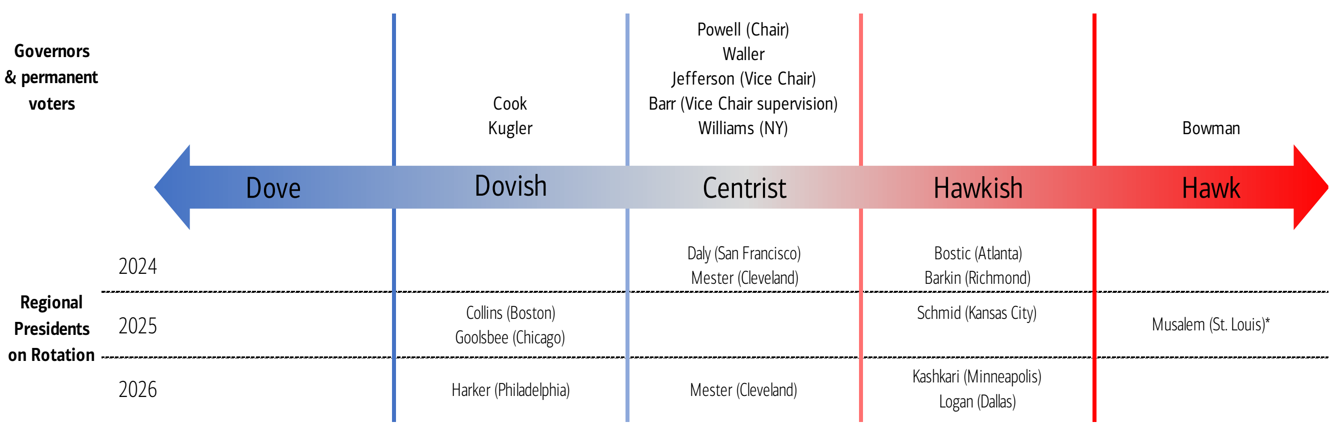
Exhibit 10: BofA US Economics Dove-Hawk chart
This year the regional presidents voting on the FOMC (Federal Open Market Committee) will be Daly, Mester, Bostic, Barkin, and Williams



Source: BofA Global Research
*Musalem was recently announced as President of the St. Louis Fed. We have yet to hear him comment on monetary policy. Therefore, this is a preliminary placement.

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Federal Reserve Balance Sheet

The balance sheet fell by $95.4bn in the past four weeks

The Fed continues to let up to $60bn of maturing Treasury securities roll off its balance sheet each month, while also reducing holdings of agency mortgage-backed securities by up to $35bn. In the week ending February 21, the Fed's balance sheet decreased by $52.3bn (H.4.1 Exhibit 11). In the past four weeks, the balance sheet has shrunk by $95.4bn. Balance sheet runoff continues to reduce take-up in the overnight reverse repo facility (ON RRP), which has fallen by $64.7bn to $574.9bn over the past four weeks.

Regional bank stress remains contained. Lending through the BTFP decreased by $0.5bn to $164.2bn. That BTFP balances declined as of February 21 is a positive sign in light of recent troubles at New York Community Bancorp. The Fed officially announced the BTFP will end on March 11, in line with our expectations (see BTFP to expire on schedule), and raised the rate for new BTFP loans which will now be equal to the interest rate on reserve balances at the time of the new loan.

Exhibit 11: The balance sheet of the Federal Reserve ($bn, Wednesday, end of period values)
Factors affecting reserve balances of depository institutions (H.4.1 Table 1)

$bn, Wednesday, end of period values	21 Feb	7-day chg	4 week chg	Chg since June 1, 2022
Supplying reserve funds (Federal Reserve assets)				
Reserve Bank credit outstanding	7545.5	-52.3	-95.4	-1333.1
Securities held outright	7078.0	-34.1	-75.3	-1402.6
US Treasuries	4661.4	-31.1	-60.9	-1109.4
Federal Agency	2.3	0.0	0.0	0.0
Mortgage-backed securities	2414.2	-3.0	-14.4	-293.2
Unamortized premiums on securities held outright	274.4	-0.7	-2.5	-62.8
Unamortized discounts on securities held outright	-25.6	-0.1	-0.1	-1.1
Repurchase agreements	0.0	0.0	0.0	0.0
Foreign official (FIMA repo facility)	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Loans	169.9	-0.6	-4.0	149.2
of which:				
Discount window (primary and secondary credit)	2.4	0.0	-0.4	1.5
Paycheck protection program (PPPLF)	3.2	0.0	-0.1	-16.6
Bank Term Funding Program (BTFP)	164.2	-0.5	-3.5	164.2
Other credit extensions	0.0	0.0	0.0	0.0
Other factors supplying reserve funds	48.8	-17.0	-13.5	-15.9
Total factors supplying reserve funds	7632.5	-52.2	-95.5	-1331.9
Absorbing reserve funds (Federal Reserve liabilities)				
Currency in circulation	2330.8	2.6	1.3	50.8
Reverse repo agreements	914.6	9.1	-65.4	-1315.9
Foreign official accounts	339.7	9.5	-0.8	74.2
Others	574.9	-0.5	-64.7	-1390.1
Treasury cash holdings	0.5	0.0	0.1	0.4
Other deposits with Federal Reserve Banks	952.7	-51.4	-55.0	-75.7
of which:				
Treasury General Account	788.8	-43.1	-26.4	8.2
Treasury contributions to credit facilities	7.4	0.0	0.0	-10.5
Other Federal Reserve liabilities and capital	-96.7	1.8	-9.8	-146.7
Factors absorbing reserves, other than reserves	4109.4	-37.8	-128.9	-1497.6
Reserve balances with Federal Reserve banks	3523.1	-14.4	33.4	165.7

Source: Federal Reserve, Haver Analytics, BofA Global Research. Note: Quantitative tightening began on June 1, 2022.

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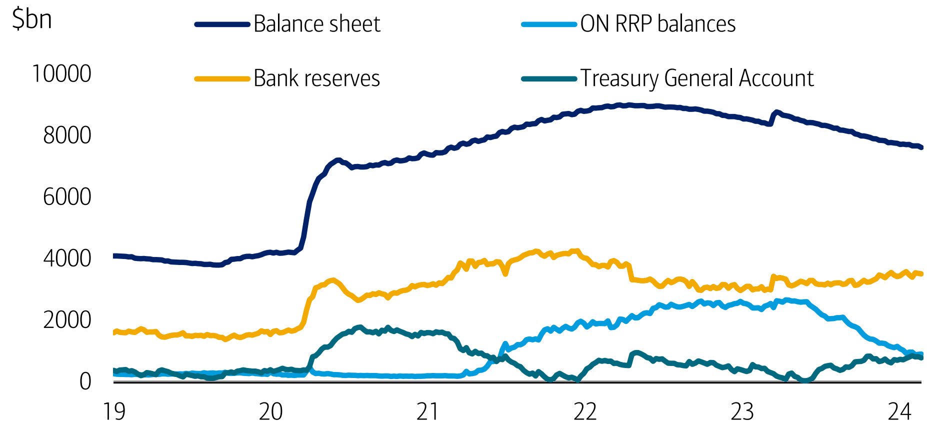
Exhibit 12: The balance sheet, ON RRP balances, bank reserves, and Treasury General Account ($bn)
Nearly all the drain in liquidity from balance sheet runoff has shown up in lower ON RRP balances while bank reserves have been largely stable



Source: Federal Reserve, Haver Analytics, BofA Global Research

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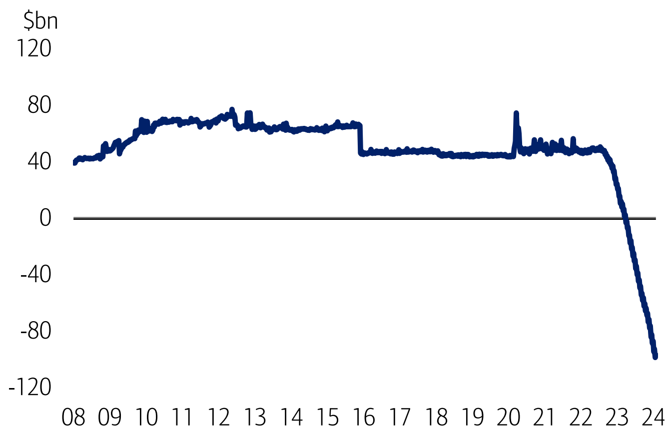
Losses on the Fed's balance sheet. The Fed continues to pay more in interest on reserves than it earns on its securities holdings. Earnings that are retained to cover this loss are booked as a negative liability on the balance sheet under "interest on Federal Reserve Notes due to the US Treasury" in the line item "other Federal Reserve liabilities and capital". The cumulative value of the shortfall in earnings (the "deferred asset") is $96.7bn.

Exhibit 13: Other Federal Reserve Liabilities and Capital ($bn)
Federal Reserve losses are mounting



Source: Federal Reserve, Haver Analytics, BofA Global Research

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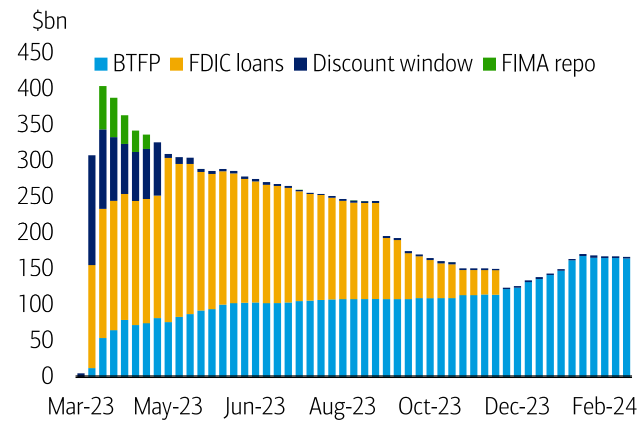
Exhibit 14: Federal Reserve Emergency Lending Facilities ($bn)
Lending through the BTFP has declined recently



Source: Federal Reserve, Haver Analytics, BofA Global Research

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BAC card spending heat map

Exhibit 15: Aggregated daily card spending growth per household (HH) by major category, Feb 11 - 17 (year-over-year (y/y) % change of the 7-day moving average of spending levels)
Total card spending per HH was down 1.0% y/y in the week ending Feb 17

	2/17	2/16	2/15	2/14	2/13	2/12	2/11
Total card spending	-1.0%	-0.9%	-1.2%	-1.4%	-1.7%	-1.7%	-1.5%
Retail ex auto	-1.9%	-1.6%	-1.8%	-1.9%	-2.1%	-2.2%	-2.6%
Airlines	-3.3%	-3.7%	-4.2%	-3.8%	-3.7%	-3.7%	-4.4%
Lodging	-3.3%	-4.4%	-5.9%	-6.2%	-6.3%	-7.1%	-7.3%
Entertainment	-5.3%	-5.8%	-5.7%	-5.3%	-7.4%	-8.5%	-8.8%
Restaurants & bars	-0.5%	-0.6%	-0.8%	-0.9%	-1.0%	-1.3%	-2.4%
Transit	2.4%	1.5%	1.4%	2.4%	3.1%	5.2%	6.4%
Gas	-4.2%	-4.4%	-5.1%	-5.6%	-6.4%	-6.6%	-7.7%
Clothing	-5.7%	-6.1%	-6.4%	-6.3%	-6.2%	-6.0%	-6.9%
Furniture	-12.1%	-14.3%	-15.9%	-16.5%	-17.4%	-17.0%	-18.2%
Department store	-7.4%	-8.0%	-8.9%	-9.1%	-10.5%	-11.3%	-14.7%
Home improvement	-9.3%	-9.5%	-9.9%	-9.1%	-9.6%	-9.5%	-10.3%
Online electronics	-7.5%	-6.6%	-6.7%	-5.9%	-5.8%	-5.3%	-4.8%
Grocery	-0.1%	1.4%	1.8%	2.0%	1.9%	1.8%	3.1%
General Merchandise	-3.0%	-2.4%	-2.4%	-2.4%	-2.7%	-2.8%	-4.3%
Total B&M retail	-3.1%	-2.6%	-2.8%	-2.8%	-3.1%	-3.1%	-3.8%
Total online retail	1.0%	0.8%	0.4%	0.3%	0.0%	-0.3%	0.2%
Total card debit	-0.3%	-0.1%	-0.4%	-0.7%	-1.2%	-1.3%	-0.9%
Total card credit	-1.8%	-1.9%	-2.2%	-2.3%	-2.3%	-2.3%	-2.3%

Source: BAC internal data. Note: The 1-yr % change shows the change between the current date at the head of the table column and its comparable date a year ago. Total card spending includes total BAC card activity, which captures retail sales and services that are paid with cards. Does not include ACH payments. B&M (Brick & Mortar) retail means retail purchases at the store. Online electronics and total online retail correspond to purchases in which the card was not present. These are largely online purchases but could include purchases made over the phone. Y/y growth in General Merchandise spending jumped in late Dec 2023. This was because of a change in Merchant Category Codes (MCC) for a significant portion of transactions from a major retail merchant. We have adjusted for the recategorization for the daily data from Feb 4 onwards.

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See the report, BofA on USA: Weekly spending update through Feb 17, for methodology, limitations, and disclaimers related to BAC card data.

Core views

Growth: Soft landing

- After the higher-than-expected 4Q advance GDP print, we continue to expect a soft landing for the US economy. Earlier, we had marked up our forecast for growth in private consumption while maintaining a slowdown in non-consumer related components like residential investment, nonresidential investment, and government spending. We continue to expect growth in real US GDP of 1.2% 4Q/4Q in 2024, up 0.6pp, and 2.0% in 2025 (See report: Sticking the landing).

Inflation: Moving in the right direction, but sticky

- PCE inflation falls to 2.0% y/y in 3Q25. Core PCE will now likely fall below 3% y/y by 1Q24. But the road to 2% will likely be slower due to sticky core services ex-housing inflation. We expect core PCE to fall to a slightly above target 2.4% y/y by 4Q24.

Inflation: Confidence to cut depends on underlying inflation

- Underlying inflation is the rate of inflation that should prevail when the economy is functioning normally, with output equal to potential and unemployment equal to the natural rate. We form estimates of underlying inflation using data on actual prices and inflation expectations. We find that underlying PCE inflation fell to 2.8% at end-2023 and trends support a first rate cut in June. A more forward-looking Fed might put more weight on low inflation expectations and cut sooner, but this Fed is data dependent and wants to avoid backtracking after it starts (See report: US Economic Viewpoint: What lies beneath: underlying inflation and the confidence to cut).

Inflation: Rent inflation to moderate but regional differences persist

- Overall inflation has made significant progress towards the Fed's 2% target, but rent inflation has remained sticky. We think differences in supply and demand across regions help explain sticky-high rent inflation. Rent inflation should continue to cool over the course of this year, but regional differences will persist (See the report: US Viewpoint: Rent inflation to moderate but regional differences persist).

Federal Reserve policy rates: Need for "greater confidence" to start easing

- At the January FOMC meeting press conference, Chair Powell significantly raised the bar for a March cut by saying, "I don't think it is likely that the committee will reach a level of confidence by the time of the March meeting". He also said that the Fed has confidence in the outlook but needs "greater confidence" before it starts normalizing its policy stance. We now look for the rate cut cycle to begin in June and expect 25bp rate cuts in June, September, and December This would mean 75bp of rate cuts this year and we retain our view of 100bp of rate cuts in 2025 (See report: US Watch: January FOMC: March is no longer the base case).

Federal Reserve balance sheet: May start of taper

- After the January FOMC meeting, we push out the timing of our expected QT (Quantitative Tightening) slowdown announcement from the March FOMC meeting to the May FOMC meeting. In addition to altering the timing of tapering, we also adjust the path of QT slowdown. We no longer expect a $15b/m taper in the US Treasury redemption cap at each FOMC meeting. Instead, we now expect a reduction in the Treasury redemption cap from $60b/m to $30b/m and for this to remain open-ended. Our view is that it can remain at this level until end '24. (See report: US Watch: January FOMC: March is no longer the base case).

Structurally higher US interest rates? Think again.

- Our estimate of the neutral real policy rate is hovering around 40bp. During the decade following the global financial crisis, our estimate of the real neutral rate was negative or close to zero. If the post-pandemic surge in participation proves short lived and productivity does not accelerate, then any rise in the neutral rate of interest in the US economy is likely to be modest at best and could prove temporary. This would mean the zero lower bound remains a constraint on monetary policy and the terminal rate in any easing cycle could be lower than we expect (See report: Structurally higher US interest rates? Think again).

Labor markets: The virtuous cycle continues

- The post-pandemic surge in labor force participation has led to a surge in total hours, and supported growth in disposable income, helping to keep consumer spending elevated despite higher interest rates. We think this has some further room to run in 2024 but foresee the participation rate drifting down toward its underlying demographic trend in 2025 and beyond (See report: Structurally higher US interest rates? Think again).

Inventories: Ongoing normalization, but there is room for upside

- Inventory accumulation surprised to the upside in the second half of last year, raising talk of another restocking cycle. In our view, inventories are likely well aligned with final sales and we do not expect wide swings. But strong consumer demand, the Red Sea conflict uncertainty & autos tailwind could support further inventory accumulation (See report: US Economic Viewpoint: Inventories have normalized, but there is room for upside).

Fiscal policy: Caution: drag ahead

- Fiscal policy bills and other idiosyncratic factors contributed to resiliency of the economy in 2023. However, the impulse to growth should turn negative in 2024. Fiscal sustainability is an ongoing concern that could be exacerbated by higher interest rates (See report: Fiscal impulse: running out of steam).

Economic forecast summary

Exhibit 16: BofA US economic outlook

We continue to expect a soft landing for the US economy

	1Q 23	2Q 23	3Q 23	4Q 23	1Q 24	2Q 24	3Q 24	4Q 24	1Q 25	2Q 25	3Q 25	4Q 25	2022	2023	2024	2025
Real Economic Activity, % SAAR																
Real GDP	2.2	2.1	4.9	3.3	1.0	1.0	1.5	1.5	2.0	2.0	2.0	2.0	1.9	2.5	2.1	1.8
% Change, Year Ago	1.7	2.4	2.9	3.1	2.8	2.5	1.7	1.2	1.5	1.7	1.9	2.0				
Final Sales	4.6	2.1	3.6	3.2	1.5	1.0	1.5	1.5	2.0	2.0	1.5	1.5	1.3	2.9	2.0	1.7
Domestic Demand	3.8	2.0	3.5	2.8	1.5	1.0	1.5	1.5	2.0	2.0	2.0	2.0	1.7	2.2	1.9	1.7
Consumer Spending	3.8	0.8	3.1	2.8	1.5	1.5	1.5	1.5	2.0	2.0	2.0	2.0	2.5	2.2	1.9	1.8
Residential Investment	-5.3	-2.2	6.7	1.2	-0.5	-0.5	1.5	2.0	2.5	2.5	2.5	2.5	-9.0	-10.7	1.0	2.2
Nonresidential Investment	5.7	7.4	1.5	1.9	1.0	1.0	2.0	2.0	2.0	2.0	2.0	2.0	5.2	4.4	1.8	2.0
Structures	30.3	16.1	11.2	3.7	-1.0	-1.0	1.0	1.0	1.5	1.5	2.0	2.0	-2.1	12.7	2.6	1.4
Equipment	-4.1	7.7	-4.4	2.7	1.0	1.0	1.5	1.5	2.0	2.0	2.0	2.0	5.2	-0.1	0.8	1.9
Intellectual Property	3.8	2.7	1.8	2.7	2.0	2.0	2.0	2.5	2.5	2.5	3.0	3.0	9.1	4.3	2.2	2.5
Government	4.8	3.3	5.8	3.3	1.0	0.5	0.5	1.0	1.0	1.0	1.0	1.0	-0.9	4.0	2.0	0.8
Exports	6.8	-9.3	5.4	2.7	1.0	1.0	1.5	1.5	2.0	2.0	2.5	2.5	7.0	2.7	2.0	1.8
Imports	1.3	-7.6	4.2	1.8	1.5	1.5	1.5	1.5	2.0	2.0	2.0	2.0	8.6	-1.7	1.2	1.7
Net Exports (Bil 12$)	-935	-928	-931	-908	-912	-917	-919	-922	-926	-930	-933	-936	-1051	-926	-917	-931
Contribution to growth (ppts)	0.6	0.0	0.0	0.4	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.5	0.5	0.1	0.0
Inventory Accumulation (Bil 12$)	27.2	14.9	77.8	82.7	67.5	60.5	57.5	64.5	73.5	82.5	97.5	112.5	128.1	50.7	62.7	91.7
Contribution to growth (ppts)	-2.2	0.0	1.3	0.1	-0.3	-0.1	-0.1	0.1	0.2	0.1	0.2	0.2	0.6	-0.4	0.1	0.1
Nominal GDP (Bil $, SAAR)	26814	27063	27610	27939	28206	28460	28741	29001	29330	29645	29953	30268	25744	27356	28602	29799
% SAAR	6.2	3.8	8.4	4.9	3.9	3.7	4.0	3.7	4.6	4.4	4.2	4.3	9.1	6.3	4.6	4.2
Key Indicators																
Fed Funds Rate (midpoint, % EOP)	4.875	5.125	5.375	5.375	5.375	5.125	4.875	4.625	4.375	4.125	3.875	3.625	4.375	5.375	4.625	3.625
Industrial Production (% SAAR)	-0.3	0.8	1.7	-2.9	0.5	1.0	0.0	0.5	1.0	1.5	1.5	1.5	3.4	0.2	0.2	0.9
Capacity Utilization (%)	79.5	79.4	79.5	78.6	78.5	78.5	78.5	79.0	79.0	79.0	79.5	79.5	80.3	79.3	78.7	79.2
Nonfarm Payrolls (Avg mom ch, 000s)	305	274	213	227	176	75	75	100	100	125	125	150	377	255	107	125
Civilian Unemployment Rate (%)	3.5	3.6	3.7	3.8	3.8	4.0	4.1	4.2	4.2	4.2	4.1	4.1	3.6	3.6	4.0	4.2
Civilian Participation Rate (%)	62.5	62.6	62.7	62.6	62.6	62.7	62.7	62.7	62.6	62.6	62.6	62.6	62.2	62.6	62.6	62.6
Productivity (% SAAR)	-0.8	3.5	5.0	3.0	0.0	1.0	1.5	1.5	1.5	1.5	1.0	1.0	-1.9	2.7	1.0	1.3
Personal Saving Rate (%)	4.8	5.1	4.2	4.0	4.4	4.6	4.7	4.9	5.1	5.2	5.4	5.6	3.5	4.5	4.7	5.3
Light Vehicle Sales (Millions SAAR)	15.0	15.8	15.7	15.7	15.1	15.2	15.4	15.5	15.8	16.1	16.4	16.8	13.8	15.5	15.3	16.3
Housing Starts (Thous. SAAR)	1385	1450	1370	1455	1450	1440	1505	1555	1555	1575	1585	1595	1551	1415	1490	1580
Current Account (% of GDP)													-3.7	-3.6	-3.4	-3.3
US Budget Balance ($bn, Fiscal Year)													-1375	-1695	-1750	-1800
Inflation																
GDP Price Index (% SAAR)	3.9	1.7	3.3	1.5	2.9	2.6	2.5	2.1	2.6	2.3	2.2	2.2	7.1	3.6	2.5	2.4
% Change, Year Ago	5.3	3.5	3.2	2.6	2.4	2.6	2.4	2.5	2.4	2.4	2.3	2.3				
PCE Chain Prices (% SAAR)	4.2	2.5	2.6	1.7	2.8	2.6	2.0	1.7	2.3	2.0	1.7	1.9	6.5	3.7	2.3	2.0
% Change, Year Ago	5.0	3.9	3.3	2.7	2.4	2.4	2.3	2.3	2.2	2.0	1.9	2.0				
Core PCE Chain Prices (% SAAR)	5.0	3.7	2.0	2.0	3.1	2.5	2.3	2.1	2.4	2.2	2.0	2.0	5.2	4.1	2.5	2.2
% Change, Year Ago	4.8	4.6	3.8	3.2	2.7	2.4	2.5	2.5	2.3	2.2	2.2	2.2				
CPI, Consumer Prices (% SAAR)	3.8	2.7	3.4	2.7	3.3	3.2	2.4	1.9	2.5	2.5	2.6	2.4	8.0	4.1	3.0	2.4
% Change, Year Ago	5.8	4.0	3.6	3.2	3.1	3.2	2.9	2.7	2.5	2.3	2.4	2.5				
CPI ex Food & Energy (% SAAR)	5.0	4.7	3.0	3.4	4.0	3.3	3.0	2.8	2.7	2.6	2.6	2.5	6.2	4.8	3.5	2.8
% Change, Year Ago	5.6	5.2	4.4	4.0	3.7	3.4	3.4	3.3	3.0	2.8	2.7	2.6				

Source: BofA Global Research

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Rates and dollar forecast

Table 1: Rates and dollar forecast

We think the Fed is done hiking and will start cutting in June

	Spot	24-Mar	24-Jun	24-Sep	24-Dec	25-Mar	25-Jun	25-Sep	25-Dec
Interest rates									
Fed Funds	5.33	5.25-5.50	5.00-5.25	4.75-5.00	4.50-4.75	4.25-4.50	4.00-4.25	3.75-4.00	3.50-3.75
Fed Effective Rate	5.33	5.38	5.13	4.88	4.63	4.38	4.13	3.88	3.63
2-Year T-Note	4.71	4.75	4.50	4.25	4.00	-	-	-	3.75
5-Year T-Note	4.33	4.50	4.40	4.25	4.15	-	-	-	4.00
10-Year T-Note	4.33	4.40	4.30	4.25	4.25	-	-	-	4.25
30-Year T-Bond	4.47	4.70	4.65	4.65	4.75	-	-	-	4.75
Dollar									
EUR-USD	1.08	1.07	1.10	1.15	1.15	1.16	1.17	1.18	1.20
USD-JPY	151	145	143	142	142	140	138	136	136
USD-CAD	1.35	1.35	1.34	1.32	1.30	1.30	1.30	1.30	1.30
AUD-USD	0.66	0.66	0.68	0.71	0.71	0.71	0.71	0.71	0.71
NZD-USD	0.62	0.60	0.62	0.63	0.63	0.63	0.63	0.63	0.63
GBP-USD	1.27	1.26	1.31	1.37	1.37	1.36	1.38	1.39	1.41
USD-CHF	0.88	0.90	0.87	0.84	0.84	0.84	0.85	0.85	0.83
USD-SEK	10.33	10.93	10.36	9.74	9.65	9.57	9.40	9.24	9.00
USD-NOK	10.51	10.84	10.27	9.57	9.48	9.40	9.23	9.07	8.83
USD-CNY	7.19	7.45	7.40	7.10	6.90	6.90	6.80	6.80	6.70
USD-MXN	17.11	17.80	17.90	18.30	18.50	18.70	18.90	19.10	19.50

Source: BofA Global Research

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Rolling calendar of business indicators

Key economic data over the next three weeks

Next week the focus will be on Personal Income & Outlays, GDP 4Q (S), U of Michigan Sentiment, Auto Sales

Monday	Tuesday	Wednesday	Thursday	Friday
Feb 26	**Feb 27**	**Feb 28**	**Feb 29**	**Mar 1**
10:00 am: New Home Sales – Jan	8:30 am: Durable Goods Orders – Jan (P) 9:00 am: S&P CoreLogic CS HPI – Dec 10:00 am: Conference Board Confidence – Feb	7:00 am: MBA Mortgage Applications – week ending 2/23/2024 8:30 am: GDP - 4Q (S) 8:30 am: Advance Goods Trade Balance – Jan	8:30 am: Initial Jobless Claims – week ending 2/24/2024 8:30 am: Personal Income & Outlays – Jan 9:45 am: Chicago PMI – Feb 10:00 am: Pending Home Sales - Jan	9:45 am: S&P Global US Manufacturing PMI – Feb F 10:00 am: Construction Spending – Jan 10:00 am: U. of Mich Sentiment – Feb (F) 10:00 am: ISM manufacturing – Feb All Day: Wards Auto Sales - Feb
Mar 4	**Mar 5**	**Mar 6**	**Mar 7**	**Mar 8**
	9:45 am: S&P Global US Services PMI – Feb F 10:00 am: Factory orders – Jan 10:00 am: ISM services– Feb	7:00 am: MBA Mortgage Applications – week ending 03/01/2024 8:15 am: ADP Employment – Feb 10:00 am: Wholesale Inventories – Jan F 2:00 pm: Fed's Beige Book	8:30 am: Initial Jobless Claims – week ending 03/02/2024 8:30 am: Trade Balance – Jan 8:30 am: Productivity & Costs - 4Q (F)	8:30 am: Employment Report – Feb
Mar 11	**Mar 12**	**Mar 13**	**Mar 14**	**Mar 15**
	6:00 am: NFIB Small Bus. Optimism – Feb 8:30 am: Consumer Price Index – Feb 2:00 pm: Monthly Budget Statement - Feb	7:00 am: MBA Mortgage Applications – week ending 03/08/2024	8:30 am: Initial Jobless Claims – week ending 03/09/2024 8:30 am: Advance Retail Sales – Feb 8:30 am: Producer Price Index – Feb 10:00 am: Business Inventories - - Jan	8:30 am: Import Price Index – Feb 8:30 am: Empire Manufacturing – Mar 9:15 am: Industrial Production – Feb 10:00 am: U. of Mich Sentiment – Mar (P)

*Projections- subject to revision as additional data become available. P - preliminary reading , S - second reading, T - third reading, F - final reading

Source: Bloomberg

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CPI and PPI Forecast tables

Exhibit 17: CPI monthly forecast table

We expect CPI inflation to moderate over the course of our forecast horizon given our expectations for restrictive monetary policy and a soft landing

	Non-seasonally Adjusted						Seasonally Adjusted									
	Headline CPI			Energy			Headline CPI					Core CPI				
	Level	m/m	y/y	Level	m/m	y/y	Level	m/m	y/y	q/q saar	y/y (quarterly)	Level	m/m	y/y	q/q saar	y/y (quarterly)
2022: Jan	281.15	0.8	7.5	260.65	1.7	27.0	282.39	0.6	7.6			286.81	0.6	6.1		
2022: Feb	283.72	0.9	7.9	267.77	2.7	25.6	284.54	0.8	7.9			288.29	0.5	6.5		
2022: Mar	287.50	1.3	8.5	298.25	11.4	32.0	287.55	1.1	8.5	9.1	8.0	289.04	0.3	6.5	6.7	6.3
2022: Apr	289.11	0.6	8.3	298.47	0.1	30.3	288.76	0.4	8.3			290.52	0.5	6.2		
2022: May	292.30	1.1	8.6	316.76	6.1	34.6	291.36	0.9	8.5			292.07	0.5	6.0		
2022: Jun	296.31	1.4	9.1	340.92	7.6	41.6	295.00	1.2	9.0	10.0	8.6	293.97	0.7	5.9	5.9	6.0
2022: Jul	296.28	0.0	8.5	325.41	-4.5	32.9	294.98	0.0	8.4			295.06	0.4	5.9		
2022: Aug	296.17	0.0	8.3	305.37	-6.2	23.8	295.21	0.1	8.2			296.57	0.5	6.3		
2022: Sep	296.81	0.2	8.2	297.34	-2.6	19.8	296.34	0.4	8.2	5.3	8.3	298.28	0.6	6.6	6.2	6.3
2022: Oct	298.01	0.4	7.7	300.36	1.0	17.6	297.86	0.5	7.8			299.35	0.4	6.3		
2022: Nov	297.71	-0.1	7.1	292.95	-2.5	13.1	298.65	0.3	7.1			300.29	0.3	6.0		
2022: Dec	296.80	-0.3	6.5	274.94	-6.1	7.3	298.81	0.1	6.4	4.0	7.1	301.42	0.4	5.7	5.1	6.0
2023: Jan	299.17	0.8	6.4	283.33	3.1	8.7	300.36	0.5	6.4			302.71	0.4	5.5		
2023: Feb	300.84	0.6	6.0	281.67	-0.6	5.2	301.51	0.4	6.0			304.12	0.5	5.5		
2023: Mar	301.84	0.3	5.0	279.08	-0.9	-6.4	301.74	0.1	4.9	3.8	5.7	305.11	0.3	5.6	4.9	5.5
2023: Apr	303.36	0.5	4.9	283.35	1.5	-5.1	303.03	0.4	4.9			306.54	0.5	5.5		
2023: May	304.13	0.3	4.0	279.82	-1.2	-11.7	303.37	0.1	4.1			307.65	0.4	5.3		
2023: Jun	305.11	0.3	3.0	283.85	1.4	-16.7	304.00	0.2	3.1	3.0	4.0	308.25	0.2	4.9	4.7	5.2
2023: Jul	305.69	0.2	3.2	284.83	0.3	-12.5	304.63	0.2	3.3			308.95	0.2	4.7		
2023: Aug	307.03	0.4	3.7	294.33	3.3	-3.6	306.19	0.5	3.7			309.66	0.2	4.4		
2023: Sep	307.79	0.2	3.7	296.00	0.6	-0.5	307.29	0.4	3.7	3.4	3.6	310.64	0.3	4.1	3.0	4.4
2023: Oct	307.67	0.0	3.2	286.75	-3.1	-4.5	307.53	0.1	3.2			311.39	0.2	4.0		
2023: Nov	307.05	-0.2	3.1	277.03	-3.4	-5.4	308.02	0.2	3.1			312.35	0.3	4.0		
2023: Dec	306.75	-0.1	3.4	269.38	-2.8	-2.0	308.74	0.2	3.3	2.7	3.2	313.21	0.3	3.9	3.4	4.0
2024: Jan	308.42	0.5	3.1	270.42	0.4	-4.6	309.69	0.3	3.1			314.44	0.4	3.9		
2024: Feb	309.81	0.5	3.0	271.62	0.4	-3.6	310.55	0.3	3.0			315.39	0.3	3.7		
2024: Mar	311.66	0.6	3.3	279.84	3.0	0.3	311.64	0.4	3.3	3.3	3.1	316.32	0.3	3.7	4.0	3.7
2024: Apr	312.79	0.4	3.1	284.18	1.6	0.3	312.40	0.2	3.1			317.13	0.3	3.5		
2024: May	313.81	0.3	3.2	287.42	1.1	2.7	312.89	0.2	3.1			317.95	0.3	3.3		
2024: Jun	315.21	0.4	3.3	294.04	2.3	3.6	313.92	0.3	3.3	3.2	3.2	318.77	0.3	3.4	3.3	3.4
2024: Jul	315.49	0.1	3.2	290.20	-1.3	1.9	314.28	0.1	3.2			319.59	0.3	3.4		
2024: Aug	316.07	0.2	2.9	290.20	0.0	-1.4	315.12	0.3	2.9			320.34	0.2	3.4		
2024: Sep	315.84	-0.1	2.6	283.61	-2.3	-4.2	315.32	0.1	2.6	2.4	2.9	321.08	0.2	3.4	3.0	3.4
2024: Oct	315.80	0.0	2.6	277.70	-2.1	-3.2	315.60	0.1	2.6			321.81	0.2	3.3		
2024: Nov	315.43	-0.1	2.7	274.88	-1.0	-0.8	316.37	0.2	2.7			322.54	0.2	3.3		
2024: Dec	315.07	-0.1	2.7	270.32	-1.7	0.4	317.15	0.2	2.7	1.9	2.7	323.27	0.2	3.2	2.8	3.3
2025: Jan	316.43	0.4	2.6	273.52	1.2	1.1	317.67	0.2	2.6			323.98	0.2	3.0		
2025: Feb	317.55	0.4	2.5	273.62	0.0	0.7	318.30	0.2	2.5			324.70	0.2	3.0		
2025: Mar	319.14	0.5	2.4	280.65	2.6	0.3	319.09	0.2	2.4	2.5	2.5	325.41	0.2	2.9	2.7	3.0
2025: Apr	320.10	0.3	2.3	284.12	1.2	0.0	319.68	0.2	2.3			326.12	0.2	2.8		
2025: May	321.03	0.3	2.3	287.60	1.2	0.1	320.08	0.1	2.3			326.82	0.2	2.8		
2025: Jun	322.44	0.4	2.3	295.79	2.8	0.6	321.11	0.3	2.3	2.5	2.3	327.52	0.2	2.7	2.6	2.8
2025: Jul	322.78	0.1	2.3	294.53	-0.4	1.5	321.52	0.1	2.3			328.21	0.2	2.7		
2025: Aug	323.57	0.2	2.4	297.91	1.1	2.7	322.57	0.3	2.4			328.90	0.2	2.7		
2025: Sep	323.50	0.0	2.4	294.20	-1.2	3.7	322.94	0.1	2.4	2.6	2.4	329.59	0.2	2.6	2.6	2.7
2025: Oct	323.59	0.0	2.5	290.52	-1.3	4.6	323.37	0.1	2.5			330.27	0.2	2.6		
2025: Nov	323.31	-0.1	2.5	289.79	-0.2	5.4	324.27	0.3	2.5			330.95	0.2	2.6		
2025: Dec	323.03	-0.1	2.5	286.72	-1.1	6.1	325.15	0.3	2.5	2.4	2.5	331.63	0.2	2.6	2.5	2.6

Source: Bureau of Labor Statistics, BofA Global Research

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Exhibit 18: PCE inflation monthly forecast table

We expect PCE inflation to moderate over the course of our forecast horizon given our expectations for restrictive monetary policy and a soft landing

	%y/y				% m/m			
	Headline	Core	Core goods	Core services	Headline	Core	Core goods	Core services
2022: Jan	6.30%	5.37%	6.92%	4.80%	0.52%	0.47%	0.94%	0.30%
2022: Feb	6.55%	5.57%	7.64%	4.82%	0.59%	0.41%	0.51%	0.38%
2022: Mar	6.89%	5.55%	7.46%	4.84%	0.84%	0.39%	0.00%	0.54%
2022: Apr	6.62%	5.25%	6.32%	4.87%	0.30%	0.33%	0.12%	0.40%
2022: May	6.69%	5.07%	5.68%	4.86%	0.57%	0.36%	0.36%	0.36%
2022: Jun	7.12%	5.19%	5.66%	5.02%	0.91%	0.56%	0.62%	0.54%
2022: Jul	6.62%	4.96%	5.43%	4.79%	0.01%	0.21%	0.05%	0.26%
2022: Aug	6.52%	5.21%	5.55%	5.09%	0.33%	0.54%	0.61%	0.52%
2022: Sep	6.56%	5.47%	5.71%	5.39%	0.36%	0.46%	0.19%	0.55%
2022: Oct	6.35%	5.33%	4.62%	5.59%	0.45%	0.35%	-0.10%	0.51%
2022: Nov	5.93%	5.09%	3.84%	5.55%	0.22%	0.28%	-0.24%	0.47%
2022: Dec	5.44%	4.87%	3.11%	5.51%	0.21%	0.39%	-0.01%	0.53%
2023: Jan	5.48%	4.90%	2.59%	5.75%	0.56%	0.51%	0.44%	0.53%
2023: Feb	5.19%	4.84%	2.20%	5.82%	0.32%	0.36%	0.13%	0.44%
2023: Mar	4.44%	4.78%	2.45%	5.64%	0.12%	0.34%	0.24%	0.37%
2023: Apr	4.45%	4.76%	2.45%	5.61%	0.30%	0.31%	0.13%	0.37%
2023: May	3.96%	4.69%	2.45%	5.51%	0.11%	0.29%	0.36%	0.26%
2023: Jun	3.20%	4.28%	1.66%	5.24%	0.17%	0.17%	-0.15%	0.29%
2023: Jul	3.31%	4.19%	1.11%	5.31%	0.13%	0.12%	-0.48%	0.33%
2023: Aug	3.35%	3.73%	0.47%	4.92%	0.36%	0.10%	-0.03%	0.14%
2023: Sep	3.37%	3.59%	0.15%	4.85%	0.38%	0.33%	-0.12%	0.49%
2023: Oct	2.93%	3.38%	0.27%	4.51%	0.03%	0.14%	0.01%	0.18%
2023: Nov	2.64%	3.15%	0.12%	4.25%	-0.07%	0.06%	-0.38%	0.22%
2023: Dec	2.60%	2.93%	-0.14%	4.04%	0.17%	0.17%	-0.27%	0.33%
2024: Jan	2.65%	2.79%	-0.68%	4.10%	0.32%	0.37%	-0.12%	0.59%
2024: Feb	2.55%	2.70%	-0.88%	4.05%	0.26%	0.27%	-0.07%	0.39%
2024: Mar	2.44%	2.60%	-1.19%	4.02%	0.28%	0.24%	-0.06%	0.34%
2024: Apr	2.33%	2.48%	-1.36%	3.92%	0.19%	0.19%	-0.05%	0.28%
2024: May	2.20%	2.37%	-1.76%	3.91%	0.13%	0.18%	-0.05%	0.25%
2024: Jun	2.22%	2.39%	-1.65%	3.90%	0.24%	0.19%	-0.05%	0.28%
2024: Jul	2.32%	2.47%	-1.17%	3.83%	0.12%	0.20%	0.00%	0.26%
2024: Aug	2.41%	2.56%	-1.14%	3.94%	0.21%	0.19%	0.00%	0.25%
2024: Sep	2.27%	2.41%	-1.02%	3.70%	0.10%	0.19%	0.00%	0.25%
2024: Oct	2.30%	2.44%	-1.03%	3.74%	0.10%	0.17%	0.00%	0.23%
2024: Nov	2.41%	2.54%	-0.65%	3.74%	0.18%	0.17%	0.00%	0.23%
2024: Dec	2.43%	2.55%	-0.38%	3.65%	0.19%	0.18%	0.00%	0.24%
2025: Jan	2.28%	2.39%	-0.24%	3.34%	0.19%	0.22%	0.02%	0.29%
2025: Feb	2.24%	2.34%	-0.15%	3.23%	0.21%	0.22%	0.02%	0.29%
2025: Mar	2.18%	2.28%	-0.07%	3.12%	0.20%	0.18%	0.02%	0.24%
2025: Apr	2.17%	2.26%	0.00%	3.06%	0.16%	0.17%	0.02%	0.23%
2025: May	2.17%	2.25%	0.07%	3.04%	0.13%	0.17%	0.02%	0.23%
2025: Jun	2.15%	2.23%	0.13%	2.98%	0.24%	0.17%	0.02%	0.23%
2025: Jul	2.11%	2.20%	0.15%	2.93%	0.12%	0.16%	0.02%	0.21%
2025: Aug	2.09%	2.17%	0.17%	2.89%	0.23%	0.16%	0.02%	0.21%
2025: Sep	2.07%	2.15%	0.19%	2.84%	0.11%	0.16%	0.02%	0.21%
2025: Oct	2.05%	2.13%	0.21%	2.82%	0.12%	0.15%	0.02%	0.20%
2025: Nov	2.08%	2.16%	0.23%	2.84%	0.23%	0.19%	0.02%	0.25%
2025: Dec	2.09%	2.17%	0.25%	2.86%	0.23%	0.19%	0.02%	0.25%

Source: BEA, BofA Global Research

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