

Macro Roundup Article

Headline: [The Relationship between Consumption Growth and Inflation](#)

Article Link: <https://www.stlouisfed.org/on-the-economy/2022/dec/relationship-consumption-growth-with-inflation>

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Publication	Federal Reserve Bank Of St. Louis
Publication Date	January 04, 2023

Tweet: According to an analysis by @stlouisfed, tighter monetary policy did not impact consumption growth until November 2022.

Summary: The blue dots in the figure show three “normal” subperiods, in which [annualized PCE] inflation was between 1% to 3% and real consumption growth was about 2% to 3%. There is also a positive relationship between consumption growth and inflation. The red dots show two high inflation subperiods, from April 2021 to February 2022 and from March to July 2022. Although inflation was very high (about 6%) in both periods, consumption growth was average. This suggests the high inflation was because of something other than growing demand. In that case, inflation during these periods may be associated with supply disruptions, or other components of demand (e.g., government consumption), rather than high real consumption growth. Since March 2022, the Federal Reserve has raised interest rates, so the second period highlighted in red also corresponds to a period of tightening monetary policy. From March to July 2022, inflation continued at 6%, and consumption growth was slightly higher than in the previous months. This pattern suggests that monetary policy, at least during those months, didn’t yet reduce consumption growth. The last four months are depicted with green dots [with seasonally-adjusted monthly PCE and real consumption growth rates annualized.] Two patterns are clear. First, inflation is significantly lower in the four months and is now close to 1%. Second, real consumption growth was very high during August and October but finally decreased to an annual rate of just over 0% in November. Thus, only the data corresponding to November suggests that the monetary mechanism described above may be working.

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Primary Topic: Inflation

Topics: Data, GDP, Government/NGO, Inflation, Monetary Policy

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