

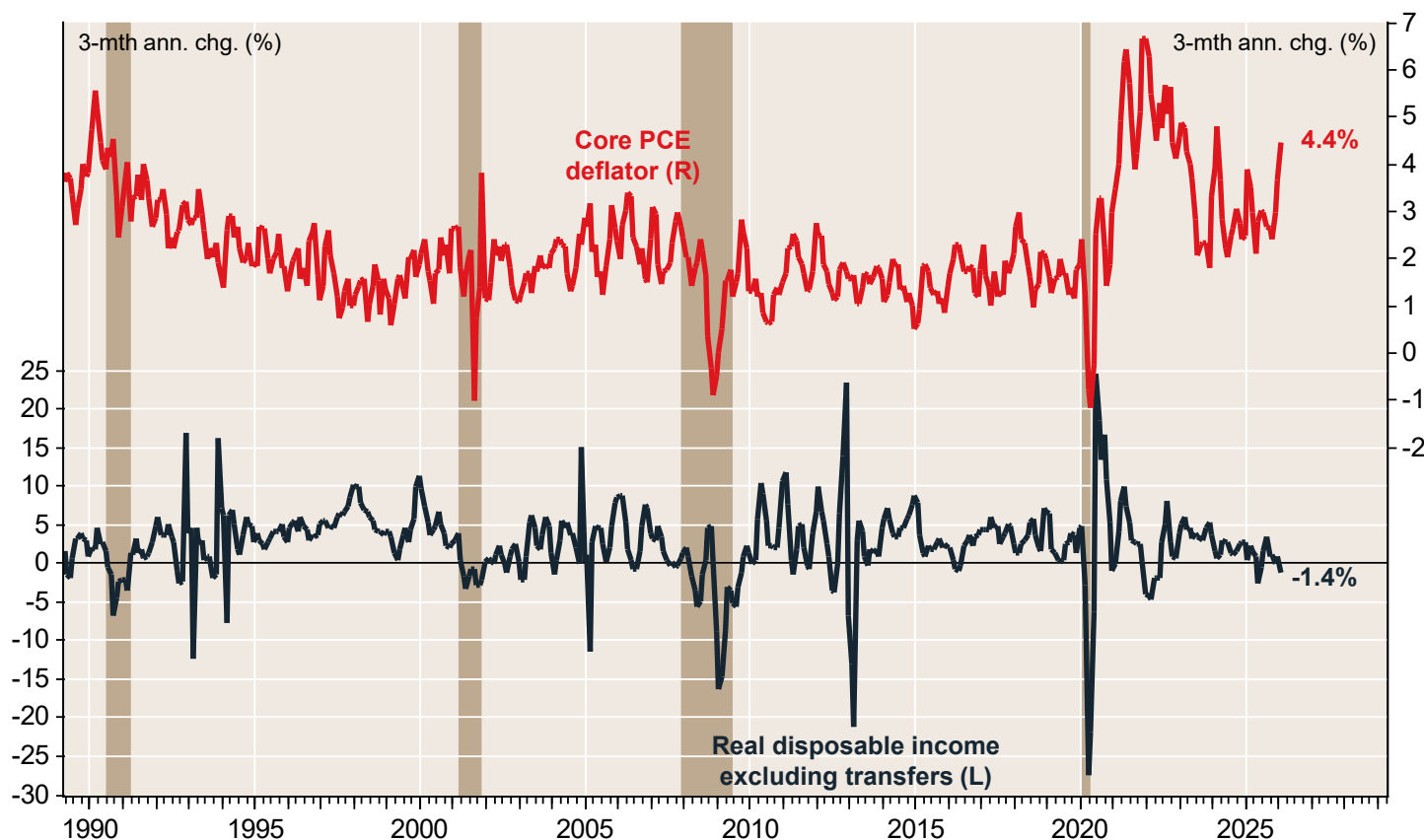
## U.S. Watch

By Jocelyn Paquet

To say that the data released by the Bureau of Economic Analysis this morning sent mixed signals would be an understatement. On the one hand, the figures pointed to a significant slowdown in household spending in the first quarter, a trend that can certainly be attributed in part to the poor weather conditions at the beginning of the year, but also to a deceleration in population growth and a cooling of the labour market. As today's Hot Chart shows, sluggish hiring is indeed weighing on the growth of real disposable income excluding government transfers – one of the “big four” indicators used by the NBER to date business cycles – but other factors are also at play. Chief among them is accelerating inflation. To be sure, this morning's data also showed that price pressures had already intensified significantly even before the conflict in the Middle East began. Although the year-on-year figures did not look too bad, this was largely due to a positive base effect. A closer look at the report revealed a much more concerning situation. Both the headline and core indices rose 0.4% in February, and these figures followed strong prints in December and January. The result is that, over the past three months, the core PCE index has risen by as much as 4.4% on an annualized basis, something that has not been seen since 1991, except for the post-pandemic period. A 6.5% surge in the price of core goods, attributable in part to tariffs and in part to supply chain issues related to microprocessors, has driven the increase over that period. And while core goods prices have increased by a more modest 2.3% over the past 12 months, this is still significantly higher than in the previous three cycles, when achieving the Fed's inflation target often depended on *deflation* in that segment. Truly, the numbers released this morning show that the central bank was already facing a difficult situation, marked by slowing growth and rising inflation, even before the conflict in the Middle East began... and things may not have improved much since then.

### U.S.: The Fed in a difficult spot even before the Iran conflict

Core personal consumption expenditures deflator vs. real disposable income excluding transfers, last observation: February 2026



NBC Economics and Strategy (data via Bloomberg)



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