ECRI
U.S. Cyclical Outlook
ESSENTIALS

Growth Upturn Gathers Steam

The "hard" data are being undercut in part by the inflation cycle upturn, which preceded the growth rate cycle upturn now in progress.

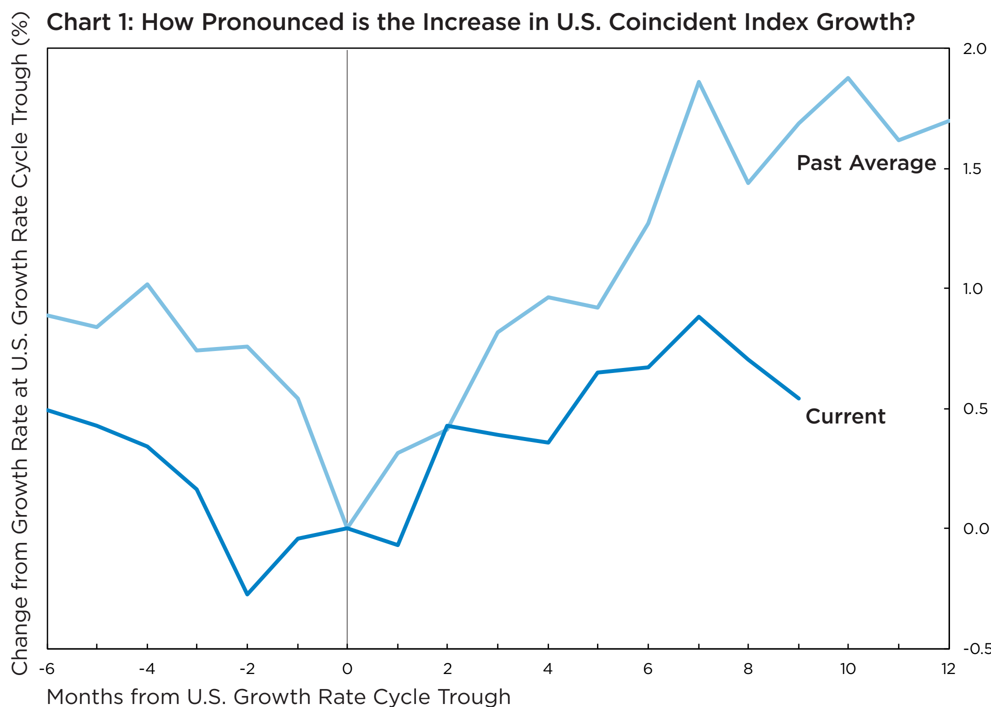
Subpar for the Course Many are misreading the "hard" data as very weak, even as the Fed is set to stay the course on its rate hike cycle. That is the essence of our earlier outlook that Janet Yellen echoed when she said after last week's rate hike: "The simple message is the economy is doing well."

The evidence clearly shows that the economy is indeed experiencing the growth rate cycle (GRC) upturn that we heralded late last year *(↗USCO Essentials, December 2016)*. Moreover, the ongoing inflation cycle upturn – which we first flagged a year ago *(↗USCO Essentials, March 2016)* – is heating up, with year-over-year (yoy) CPI growth ramping up to a five-year high of 2.8%, while yoy core CPI inflation hovers near a 7½-year high (not shown). Also, yoy personal consumption expenditures (PCE) deflator growth, as Ms. Yellen noted, "rose to nearly 2% in January, up from less than 1% last summer," while yoy core PCE inflation edged up to a 2½-year high of 1¾% (not shown).

A three P's analysis shows that the upturn in the smoothed growth rate of ECRI's U.S. Coincident Index (USCI) is less pronounced than the median in comparable past GRC upturns (Chart 1). However, the upturns in the growth rates of the USCI and its components are about as pervasive as (Chart 2) – and actually a bit more persistent than (Chart 3) – the median in comparable past GRC upturns. In other words, this GRC upturn is genuine, but somewhat weaker than usual.

The GRC upturn is hewing roughly to 21st-century standards, which also make it less likely to last for another year or longer as many assume.

Chart 1: How Pronounced is the Increase in U.S. Coincident Index Growth?



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