



ILLUSTRATION BY ITCHI

Cover Economics

What Everyone Got Wrong About the Economy—and the Ominous Implications for the Fed

The central bank's efforts to tame inflation haven't worked yet. More pain, and a harder landing, could lie ahead.

By [Megan Cassella](#) [Follow](#)

Updated Feb. 24, 2023 1:18 pm ET / Original Feb. 24, 2023 1:17 pm ET

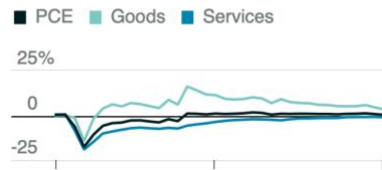
...

never collided this way before.

Services Strength Remains

As of December, services spending remained 1% below its prepandemic trend, suggesting potential room left to grow.

Percent Change in Personal Spending Compared to 2010-19 Trend



The long tails of fiscal stimulus, for example, have propped up the economy for far longer than anyone expected. Excess consumer savings and an ebullient labor market fueled demand for travel, restaurant dining, and other services, where spending still has room to grow. And years of low interest rates have transformed the debt dynamics for the overwhelming majority of U.S. households, leaving them largely shielded, through fixed-rate mortgages, from the impacts of the Federal Reserve's primary tightening tool.