WEEKLY MARKET COMMENTS – APRIL 16, 2024

Consumer inflation remained persistently high last month, boosted by gas, rents, auto insurance and other items, the government said last Wednesday in a report that will likely give pause to the Federal Reserve as it considers how often, or even whether, to cut interest rates this year.

Prices outside the volatile food and energy categories rose by 0.4% from February to March, the same accelerated pace as in the previous month. Measured from a year earlier, these core prices are up 3.8%, unchanged from the year-over-year rise in February. The Fed closely tracks core prices because they tend to provide a good read of where inflation is headed.

Wednesday's figures represent a disappointment for the White House. Republican critics of President Joe Biden have sought to pin the blame for high prices on the president and use it as a cudgel to derail his re-election bid. Polls show that despite a healthy jobs market, a near record-high stock market and a decline inflation from its peak, many Americans blame Biden for high prices.

The March figures, the third straight month of inflation readings well above the Fed's 2% target, provide concerning evidence that inflation is stuck at an elevated level after having steadily dropped in the second half of 2023. The latest numbers threaten to torpedo the prospect of multiple rate cuts this year. Fed officials have made clear that with the economy healthy, they are now in no rush to cut their benchmark rate despite their earlier projections that they would do so three times this year.

The report pours cold water on the view that the faster readings in January and February simply represented the start of new-year price increases that were not likely to persist. The lack of moderation in inflation will undermine Fed officials' confidence that inflation is on a sustainable course back to 2% and likely delays rate cuts to July at the earliest and could push off rate reductions to next year.

On that day, traders sent stock prices tumbling and bond yields rising, reflecting fear that the Fed may delay interest rate cuts indefinitely. The broad S&P stock index was sharply higher in the morning and then fell apart as the session came to a close, of almost 1%.

Chair Jerome Powell has stressed that the Fed's policymakers need more confidence that inflation is steadily slowing to their target level before they will support a rate cut. Lower rates could fuel faster growth and potentially push inflation higher. Powell's stance has elevated the profile of the monthly inflation data in determining when the Fed might start cutting rates. Lower rates would lead, over time, to reduced borrowing costs for businesses and consumers.

Overall consumer prices rose by 0.4% from February to March, the same as in the previous month. Compared with a year ago, prices rose 3.5%, up from a year-over-year figure of 3.2% in February.

The Fed closely tracks a separate inflation gauge that has been coming in below the consumer price index, released Wednesday. Yet those figures will likely come in high enough to concern policymakers.

The persistence of elevated U.S. inflation complicates Biden’s claims to be making steady progress against higher prices. The president has argued that further improvement would be possible if Republicans in Congress would back his policies, which include efforts to lower costs for prescription drugs, reduce so-called “junk fees,” and write off some student debts.

Biden had previously suggested that lower inflation would lead the Fed to cut rates, but he hedged that prediction on Wednesday. “This may delay it a month or so,” Biden said at a news conference with Japanese Prime Minister Fumio Kishida, adding that he’s “now not so sure” exactly what the Fed would do.

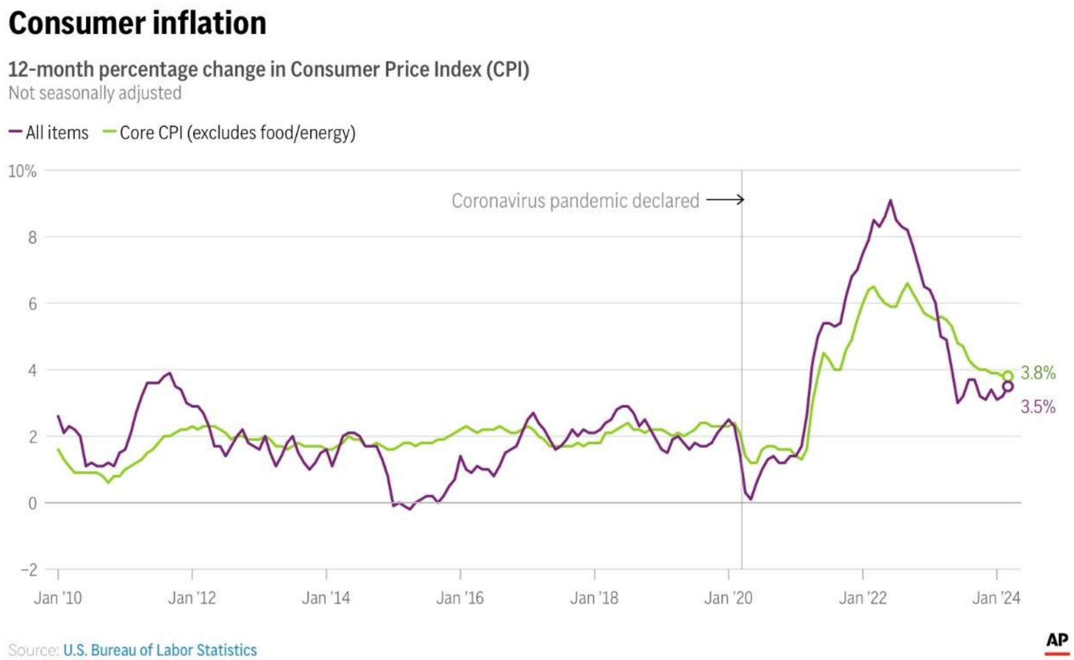
The costs of owning a vehicle were a key reason why prices jumped last month: Auto insurance surged by 2.6% in March and are up a dramatic 22% from a year ago. That increase reflects, in part, the rise in new-car prices over the past two years.

Average auto repair costs increased 1.7% from February to March and are up a sharp 8.2% from a year earlier. And the price of gas to power most vehicles surged 1.7% last month. Prices for new and used cars, though, fell slightly.

Clothing costs jumped 0.7% in March, the second straight month of sizable increases, though they have barely risen over the past year. Grocery prices, though, were unchanged last month and are just 1.2% higher than they were a year ago, providing some relief to consumers after the huge spikes in food prices in the previous two years.

The chronically elevated inflation so far this year does suggest that American consumers, on average, remain confident enough to keep spending despite steady price increases. Likewise, the surge in auto insurance and repair costs reflect the previous sharp increases in auto sales prices. It means that the consumer is in good shape and accepting price increases still.

Though inflation has plummeted from its peak of 9.1% in June 2022, average prices are still well above where they were before the pandemic. This has meant hardships for many lower-income families, whose wages may not have fully kept up with rising prices.



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