Financial Page Summary April 2024

By David Helscher

At the beginning of the year, a number of financial market watchers had predicted as many as six interest rate cuts in the key short term federal funds rate. This prediction has been whittled away to the present, possibly overoptimistic, prediction of three rate decreases or even fewer by the end of the year. Some members of the Federal Reserve Open Market Committee (FOMC) have openly questioned a need for any rate cuts. The FOMC states that it is data dependent and will not be easing rates until the data indicates inflation is moving to its target rate of 2%. For its part, the FOMC has stood pat on rates so far this year and Fed Chairman Powell has stated they would remain so for so long as it takes. Currently, the Fed's monetary policy is the most restrictive in 40 years.

The resilience displayed by the job market during the first quarter of this year, along with sticky inflation prints caused the markets to recalibrate their expectations. This reset of prior, more accommodative, expectations even fall short of the Fed's own prior forecast of three rate cuts. The labor market appears resilient going into mid-year 2024. Initial jobless and continuing claims continue to hover at the same levels for some time. The establishment survey, counting the total number of employees on a company's payroll, has been averaging around 276,000 jobs per month, a healthy number. But there is some divergency with the household survey, tracking the total number of individuals currently employed, including those with multiple jobs. The household survey reflects a net gain of 283,000 jobs for the entire first quarter, with all of the net gain being part-time positions. The National Federation of Independent Business suggests that companies are scaling back their plans for job creation and small business owners have dropped their plans to their lowest level since COVID. This would indicate that unemployment could rise over the next few months as job growth could experience a downturn.

Inflation indicators such as the Consumer Price Index (CPI) and Personal Consumption Expenditures Index (PCE) on a core basis (excluding food and energy) have been trending steadily downward, after peak levels in the summer of 2022. A large portion of these indices are attributed to shelter costs, 40% of core CPI and 30% of core PCE. Shelter costs, which includes primary rent and owner equivalent rent, tends to align with real time data after a 12-month delay. The New Tenant Index, which tracks real time shelter costs, has shown a significant decline. This suggests lower overall inflation by the end of the year.

The financial health of the U.S. consumer may not be as rosy as some would indicate. Consumers have persistently spent more than their income. In the past four years, the annual increase in personal spending has exceeded personal income growth by 0.8%. To fund this spending spree, consumers have accumulated record high credit card debt. The Fed's decision to raise interest rates has resulted in a sharp increase in interest payments on credit cards and there are indications of rising delinquency rates for credit cards. Some of this is confirmed with a decline in savings rates, depleting savings from the COVID era. If indications of a slowing labor market continue, this debt induced spending trajectory cannot be sustained.

Forecasting on a month-to-month basis is notoriously unpredictable. The Fed has stated that any decision they make on rates will be data dependent and they will take this time to review the data to detect or confirm trends. Current trends indicate a reduction in inflation but this may take longer than expected, leaving interest rates higher for longer periods.