



## Monthly Market Commentary: March 2024

In February, the US experienced a slight acceleration in inflation, with year-over-year prices growing by 3.2%, a bit more than expected, and marking a modest increase from January's 3.1% rise<sup>1</sup>. The acceleration in monthly prices was largely caused by rising gas and shelter costs, which together accounted for over 60% of the increase. Despite this, the so-called "super core" inflation, which excludes food, energy, and shelter, provided a bit of a silver lining by substantially slowing down in February, though still above the Federal Reserve's comfort zone. This nuanced inflation landscape continues to be a focal point for markets and investors, who are keenly analyzing these trends as they try to predict the Fed's moves this year.

On the consumer front, the latest data on personal income and spending reflect a strengthening economic base, yet with an undercurrent of cautious consumer behavior. An increase in incomes did not translate into a proportional rise in consumer spending, as consumers shifted to increase their savings amid a heightened sensitivity to inflationary pressures<sup>2</sup>. The slight uptick in the savings rate to 3.8% is still below last year's peak of 5.3% in May, suggesting that consumers may be attempting to cut back on spending and retain wage increases to improve their financial health amid uncertain inflationary conditions<sup>2</sup>. Additionally, February's retail sales fell short of expectations, particularly in the services sector, though sales returned to growth after February's decline<sup>3</sup>. Cooling consumer spending may, in turn, help moderate inflation over time.

The labor market presents a mixed picture, with February showcasing robust job growth that exceeded expectations, yet also revealing signs of an emerging cooling trend<sup>4</sup>. Notably, the unemployment rate saw an uptick to 3.9%, the highest in two years, potentially signaling a shift towards a more balanced labor market. This softening, coupled with a deceleration in wage growth, may influence the Federal Reserve's calculus in their upcoming meetings, especially if these trends persist, possibly paving the way for a shift in rate policies later in the year.

The bottom line: Despite higher inflation, economists anticipate interest rate cuts possibly beginning this summer. The Federal Reserve's cautious approach, underscored by recent inflation data and the need for further evidence before altering policy, suggests their projections could shift further. The Federal Reserve governors' updated expectations graph, called the dot plot, is expected to shed light on future policy moves, as the Federal Reserve navigates the delicate balance between promoting economic recovery and controlling inflation. The next CPI report will be pivotal in informing discussions on potential rate adjustments in June or revisiting the possibility of a cut in May.

Sources:

1. Bureau of Labor Statistics, <https://www.bls.gov/news.release/cpi.nr0.htm>
2. Bureau of Economic Analysis, <https://www.bea.gov/news/2024/personal-income-and-outlays-january-2024>
3. Retail Sales, <https://www.census.gov/retail/sales.html>
4. Bureau of Labor Statistics, <https://www.bls.gov/news.release/empstat.nr0.htm>

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