Inflation's Ripple Effect

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Tracking inflation these days provides insights into two different areas. First, of course, are the changes in the cost of everyday living. And second, inflation news has an indirect but powerful influence on the future of interest rates. If inflation goes up or stubbornly remains above the Federal Reserve Board's 2% target, then it's logical to expect the Fed to raise rates as a way to bring it down. If inflation is trending down in some meaningful way, then we might expect the Fed to hold off and monitor the trend.

The inflation data also factors into how some economists view our near-term economic future. Whenever the Fed raises rates, its goal is to slow down the economy and pull some liquidity out of the business world, which pushes us all a step closer to a recession. The dance between cooling the economy and crashing it is delicate and precise—and probably beyond the abilities of mere mortals.

So what are we seeing now? The core Consumer Price Index—which excludes volatile food and energy prices—rose 0.4% in March after a 0.5% gain in February. Multiply the average by 12 and you get roughly a 6% annual inflation rate.

So what are the tea leaves telling us? The current rate is four full percentage points higher than the Fed target, but this represents a slowdown from the 7.5% inflation that the economy experienced in the last couple of years. Economists are expecting the Fed to raise rates, but not dramatically, in its next rate hike window, and then cross its fingers that this will lead the economy toward more stable prices across the economy.

Source:

https://www.advisorperspectives.com/articles/2023/04/12/us-core-inflation-slows-only-a-bit-keeping-fed-on-track-to-hike

If you have any questions about this article or want to discuss your family finances, investment portfolio, or financial planning advice, please call on me anytime at my number (215) 325-1595 or you can click here to schedule a meeting.

Please feel free to forward this article and offer to anyone you know who might have financial questions or need some unbiased advice. Most financial advice is sales advice. In stark contrast, we are fee-only (non-commissioned) fiduciary advisors. We just provide truthful, unbiased advice to our clients.

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