Weekly Commentary

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This baffling economy

The U.S. economy continues to confound. Small businesses are pessimistic about the near future, but few are pulling "help wanted" signs from windows. A parade of stories about layoffs at tech companies isn't indicative of the lion's share of large companies that still are looking for workers. You don't need an economics degree to know that consumers with jobs and savings buy goods and use services. The February University of Michigan sentiment survey reached a 13-month high. It's hard to argue a serious downturn is imminent.

Even the housing market is recovering. The average 30-year mortgage rate has declined a full percentage point from its peak last October (Mortgage Bankers Association) and the Case-Shiller Home Price Index sits below its high in 2022. As is typical, housing was among the first sectors impacted by the Federal Reserve hiking cycle. If it truly is on the mend, and if inflation continues to abate, policymakers might able to thread the needle and avoid a recession.

But beware assuming inflation is in the rearview mirror. If the robust labor market and resilient consumer keeps CPI from dipping below, say, 4%, the Fed might hold rates higher for longer—even if they stop hiking after another two 25 basis-point hikes.

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