Weekly Commentary

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Fed faces late-arriving inflation report

No longer do kids with newspapers shout "Extra! Extra! Read all about it!" from city sidewalks. But the members of the Federal Open Market Committee (FOMC) will treat a particular economic report with that level of urgency this Tuesday. Before policymakers settle into their seats at the Eccles building on the National Mall in Washington, D.C. on Tuesday morning, they will get the news of the May Consumer Price Index (CPI).

It's unclear if the CPI figures will make a difference in their decision on rates. Each member presumably had a vote in mind before the meeting. The markets, and we, think that decision will be to forgo a rate hike for the first time since March 2022. That would mean that the fed funds target range would remain at 5-5.25%. That's high, but so is inflation, whether measured by CPI, PCE, PPI or any other acronym.
The Fed remains laser focused on returning it to around 2%, and none of these reports is near that. If CPI comes in hotter than expected, don't discount the members changing their minds and voting to raise the target range, after all, probably by 25 basis-points.

Barring such a surprise, Fed speakers have largely indicated they would prefer to take a breather to assess the impact of the aggressive tightening cycle. Investors will need to pay close attention to the Summary of Economic Projections and Chair Jerome Powell's press conference to gauge the likelihood that the Fed merely planned to push the rate hike to July's meeting and to push on. While every FOMC meeting has been crucial in the last two years, this week's will be critical.

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