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Weekly Commentary

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A numbers guy

It’s not smart to fight the Fed; it’s even more so with today’s numbers-driven policymakers.

“Data dependent” might seem just a phrase. Isn’t the Federal Reserve always reliant on economic statistics and reports? Yes, but the Fed under Chair Jerome Powell is less ideological than those under previous leaders. It’s admittedly reductionist, but former heads Janet Yellen and Ben Bernanke espoused academic theory, Alan Greenspan often went with his gut and Paul Volcker had an agenda to crush out-of-control inflation. Powell is more willing to follow the data, turning the Fed around pre, during and post pandemic. Admittedly the last decision, raising rates in 2022 to fight rising inflation, came late and it spiked. But pushing the fed funds target range to 5.25-50% cooled it down.

Now Powell and company must decide if they will alter course again. In March, they projected that cutting rates this year was a done deal. But the Consumer Price Index (CPI) has proved stubborn. The Bureau of Labor Statistics said last week it rose 0.4% in March, the same as in February, and the highest since September. Annualized 12-month CPI accelerated from 3.2% to 3.5%, and the core measure didn’t budge at 3.8%. With the labor market also refusing to cool, it may be that the Fed will trim its projections for three quarter-point cuts this year to two, or even one. If that’s the case, it's another example of Powell’s willingness to change heading based on the data.

Consumer Price Index (CPI): A measure of inflation at the retail level.

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