

Economic Outlook:

Rate Cuts Delayed as Federal Reserve Awaits Further Inflation Improvement

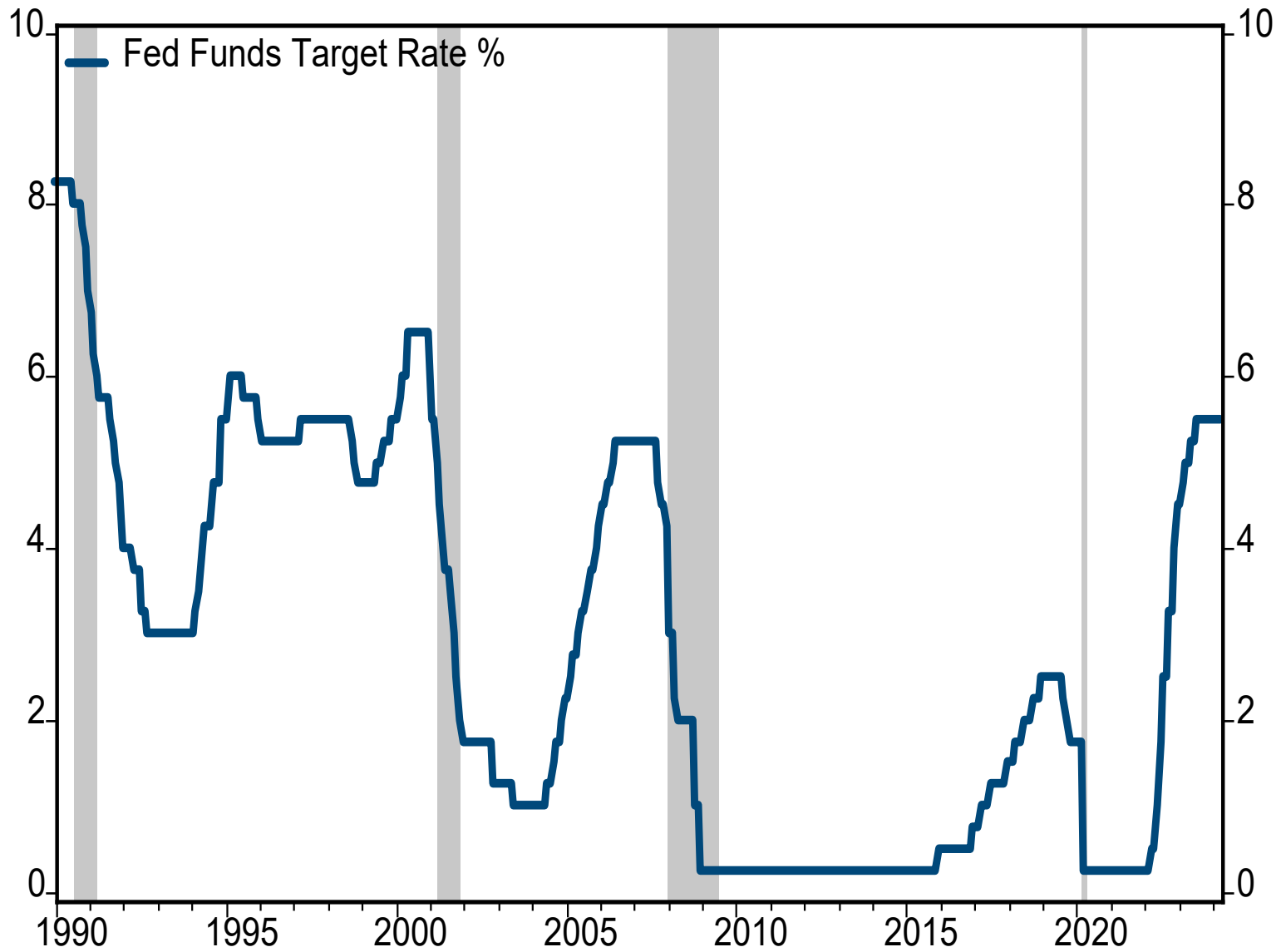
April 2024



STIFEL

Lindsey M. Piegza, Ph.D.
Chief Economist

Federal Reserve Leaves Rates Unchanged for Fifth Consecutive Meeting



Source: Federal Reserve Board/Haver Analytics

*“Recent indicators suggest that economic activity has been expanding at a **solid** pace. Job gains have remained **strong**, and the unemployment rate has remained **low**.”*

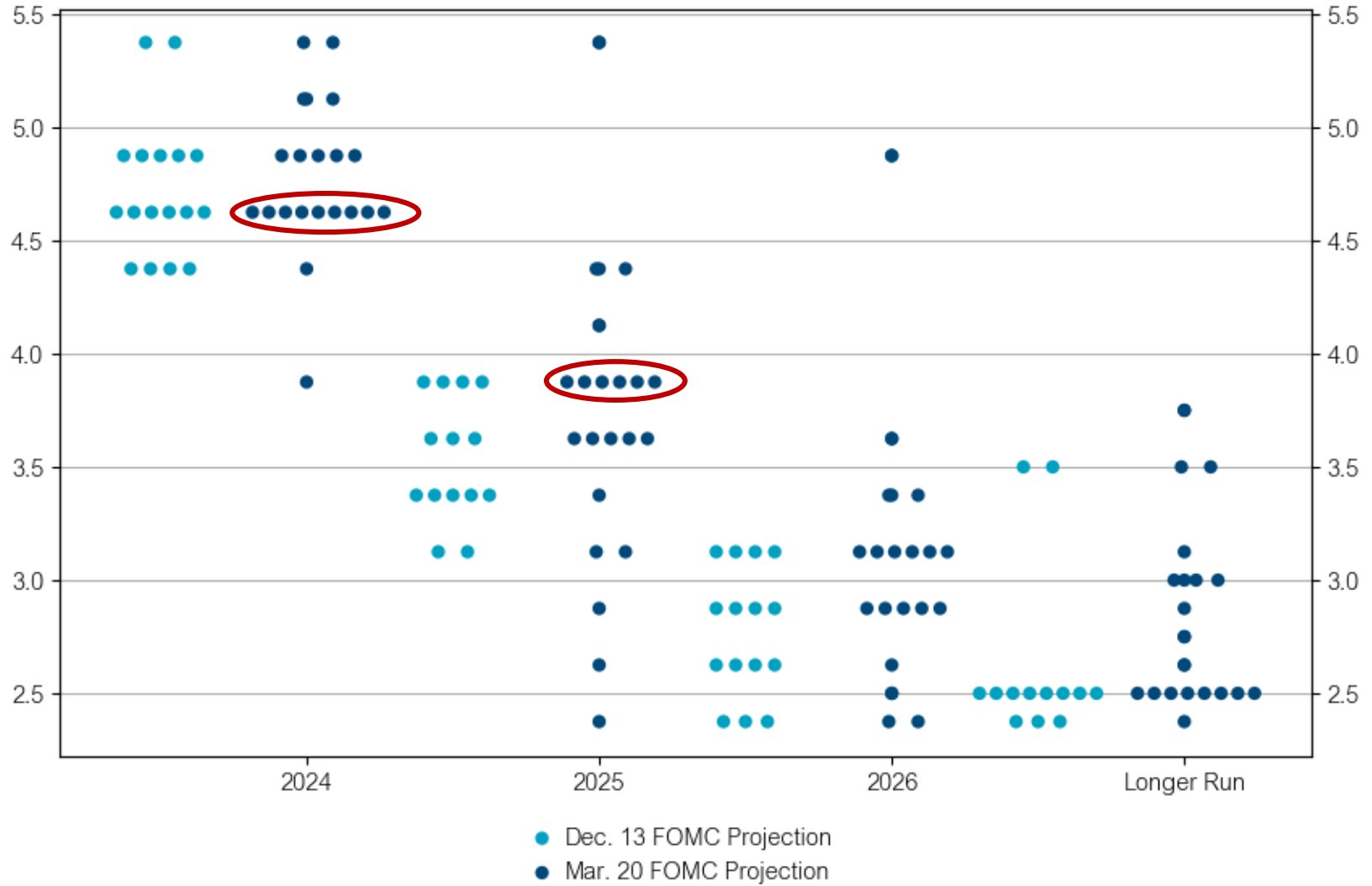
- March 20 FOMC Statement

*“Recent indicators suggest that economic activity has been expanding at a **solid** pace. Job gains have remained **strong**, and the unemployment rate has remained **low**.”*

*“In considering any adjustments to the target range for the federal funds rate, the Committee will carefully **assess incoming data, the evolving outlook, and the balance of risks**. The Committee does not expect it will be appropriate to reduce the target range until it has gained **greater confidence that inflation is moving sustainably** toward 2 percent.”*

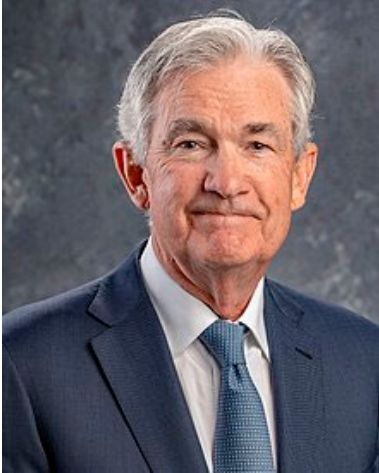
- March 20 FOMC Statement

Dot Plot Indicates Three Potential Rate Cuts in 2024 and Three More in 2025



Source: Federal Reserve

Powell Notes Risk of Easing too Soon



*“..the risks are really two-sided here; we're in a situation where **if we ease too much or too soon, we could see inflation come back, and if we ease too late, we could do unnecessary harm to employment and people's working lives.** And so, we do see the risks as two sided, so it is consequential, we want to be careful and fortunately with the economy growing, with the labor market strong, and with inflation coming down, we can approach that question carefully and let the data speak on that.”*

Federal Reserve (Fed) Chairman Jerome Powell Speaking at FOMC Press Conference

March 20, 2024

Fed Officials Urge Patience



*“The strength of the economy and the recent data we have received on inflation mean it is **appropriate to be patient, careful, methodical, deliberative** – pick your favorite synonym...Whatever word you pick, they all translate to one idea: **What’s the rush.**”*

Fed Governor Christopher Waller speaking at the University of St. Thomas Minneapolis Campus

February 22, 2024



*“I would like to have **greater confidence that inflation is converging to 2% before beginning to cut** the policy rate...We should continue to **move carefully as we receive more data**, maintaining the degree of policy restriction needed to sustainably restore price stability while keeping the economy on a good path.”*

Fed Governor Lisa Cook speaking at Princeton University

February 22, 2024

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Fed Governor Lisa Cook speaking at Princeton University

February 22, 2024



*“**We have time to get this right**, as we must...As progress can be bumpy – and uneven at times – it is **important that we see more evidence**, allowing us to look past the vagaries of monthly data and ensure we **continue on the right path.**”*

Philadelphia Fed President Patrick Harker speaking in Newark, Delaware

February 22, 2024

Inflation Forecast Revised Higher

March 20 Summary of Economic Projections												
Variable	Median				Central Tendency				Range			
	2024	2025	2026	Longer Run	2024	2025	2026	Longer Run	2024	2025	2026	Longer Run
Change in real GDP	2.1	2.0	2.0	1.8	2.0-2.4	1.9-2.3	1.8-2.1	1.7-2.0	1.3-2.7	1.7-2.5	1.7-2.5	1.6-2.5
December projection	1.4	1.8	1.9	1.8	1.2-1.7	1.5-2.0	1.8-2.0	1.7-2.0	0.8-2.5	1.4-2.5	1.6-2.5	1.6-2.5
Unemployment rate	4.0	4.1	4.0	4.1	3.9-4.1	3.9-4.2	3.9-4.3	3.8-4.3	3.8-4.5	3.7-4.3	3.7-4.3	3.5-4.3
December projection	4.1	4.1	4.1	4.1	4.0-4.2	4.0-4.2	3.9-4.3	3.8-4.3	3.9-4.5	3.8-4.7	3.8-4.7	3.5-4.3
PCE inflation	2.4	2.2	2.0	2.0	2.3-2.7	2.1-2.2	2.0-2.1	2.0	2.2-2.9	2.0-2.5	2.0-2.3	2.0
December projection	2.4	2.1	2.0	2.0	2.2-2.5	2.0-2.2	2.0	2.0	2.1-2.7	2.0-2.5	2.0-2.3	2.0
Core PCE inflation	2.6	2.2	2.0		2.5-2.8	2.1-2.3	2.0-2.1		2.4-3.0	2.0-2.6	2.0-2.3	
December projection	2.4	2.2	2.0		2.4-2.7	2.0-2.2	2.0-2.1		2.3-3.0	2.0-2.6	2.0-2.3	
Memo: Projected appropriate policy path												
Federal funds rate	4.6	3.9	3.1	2.6	4.6-5.1	3.4-4.1	2.6-3.4	2.5-3.1	4.4-5.4	2.6-5.4	2.4-4.9	2.4-3.8
December projection	4.6	3.6	2.9	2.5	4.4-4.9	3.1-3.9	2.5-3.1	2.5-3.0	3.9-5.4	2.6-5.4	2.4-4.9	2.4-3.8

Source: Federal Reserve

PCE = Personal Consumption Expenditure

Inflation Forecast Revised Higher Along with Growth

March 20 Summary of Economic Projections												
Variable	Median				Central Tendency				Range			
	2024	2025	2026	Longer Run	2024	2025	2026	Longer Run	2024	2025	2026	Longer Run
Change in real GDP	2.1	2.0	2.0	1.8	2.0-2.4	1.9-2.3	1.8-2.1	1.7-2.0	1.3-2.7	1.7-2.5	1.7-2.5	1.6-2.5
December projection	1.4	1.8	1.9	1.8	1.2-1.7	1.5-2.0	1.8-2.0	1.7-2.0	0.8-2.5	1.4-2.5	1.6-2.5	1.6-2.5
Unemployment rate	4.0	4.1	4.0	4.1	3.9-4.1	3.9-4.2	3.9-4.3	3.8-4.3	3.8-4.5	3.7-4.3	3.7-4.3	3.5-4.3
December projection	4.1	4.1	4.1	4.1	4.0-4.2	4.0-4.2	3.9-4.3	3.8-4.3	3.9-4.5	3.8-4.7	3.8-4.7	3.5-4.3
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December projection	2.4	2.1	2.0	2.0	2.2-2.5	2.0-2.2	2.0	2.0	2.1-2.7	2.0-2.5	2.0-2.3	2.0
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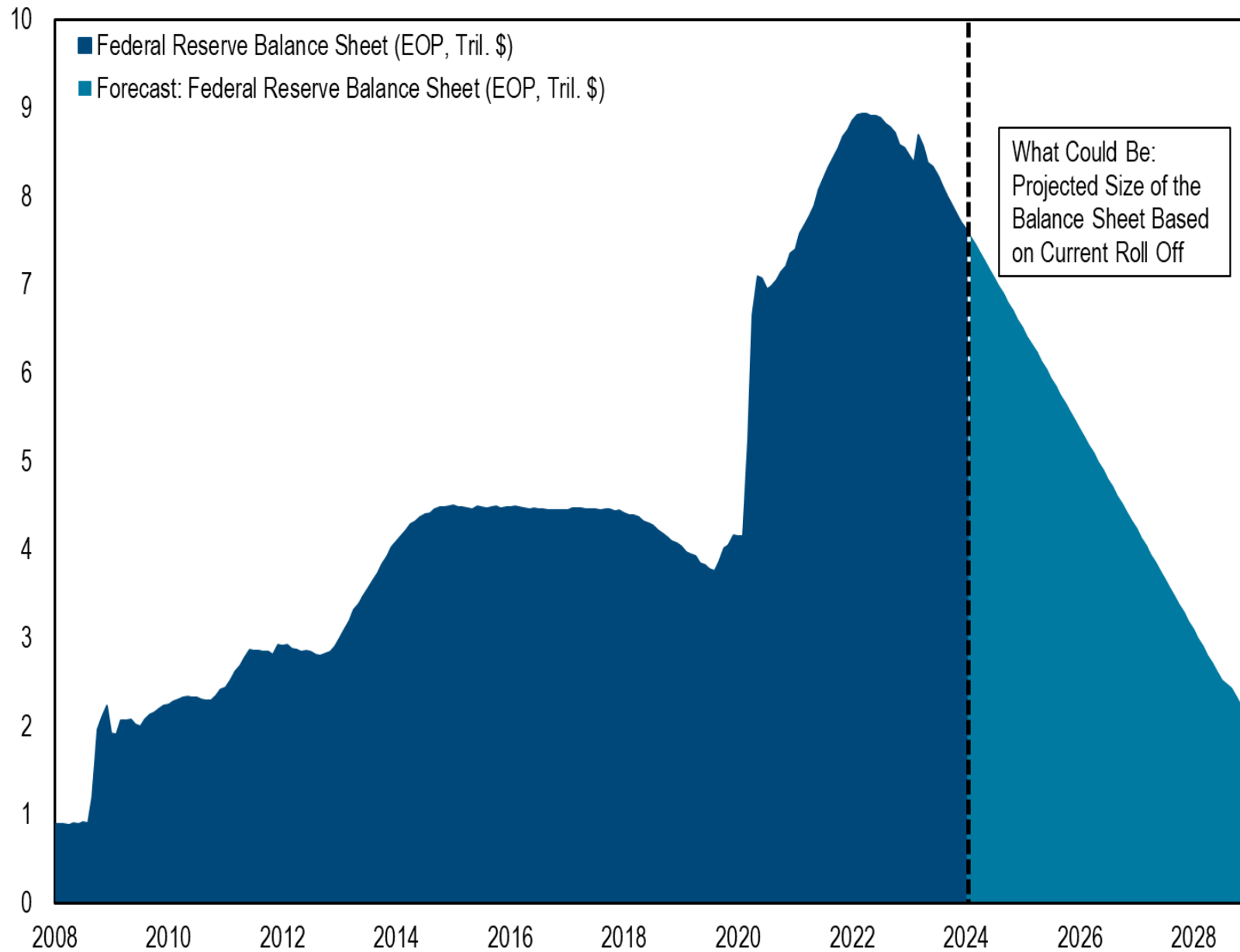
Source: Federal Reserve

Unemployment Rate Revised Lower

March 20 Summary of Economic Projections												
Variable	Median				Central Tendency				Range			
	2024	2025	2026	Longer Run	2024	2025	2026	Longer Run	2024	2025	2026	Longer Run
Change in real GDP	2.1	2.0	2.0	1.8	2.0-2.4	1.9-2.3	1.8-2.1	1.7-2.0	1.3-2.7	1.7-2.5	1.7-2.5	1.6-2.5
December projection	1.4	1.8	1.9	1.8	1.2-1.7	1.5-2.0	1.8-2.0	1.7-2.0	0.8-2.5	1.4-2.5	1.6-2.5	1.6-2.5
Unemployment rate	4.0	4.1	4.0	4.1	3.9-4.1	3.9-4.2	3.9-4.3	3.8-4.3	3.8-4.5	3.7-4.3	3.7-4.3	3.5-4.3
December projection	4.1	4.1	4.1	4.1	4.0-4.2	4.0-4.2	3.9-4.3	3.8-4.3	3.9-4.5	3.8-4.7	3.8-4.7	3.5-4.3
PCE inflation	2.4	2.2	2.0	2.0	2.3-2.7	2.1-2.2	2.0-2.1	2.0	2.2-2.9	2.0-2.5	2.0-2.3	2.0
December projection	2.4	2.1	2.0	2.0	2.2-2.5	2.0-2.2	2.0	2.0	2.1-2.7	2.0-2.5	2.0-2.3	2.0
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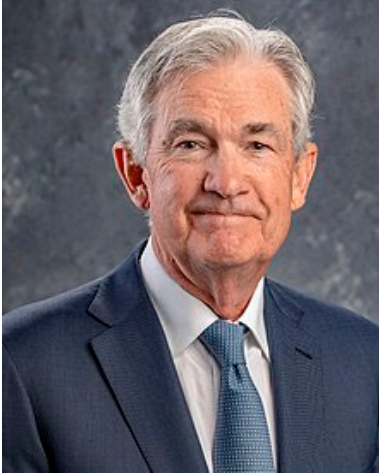
Source: Federal Reserve

Continued Reduction of Balance Sheet



Source: Federal Reserve/Haver Analytics

Fed Not on Predetermined Pathway

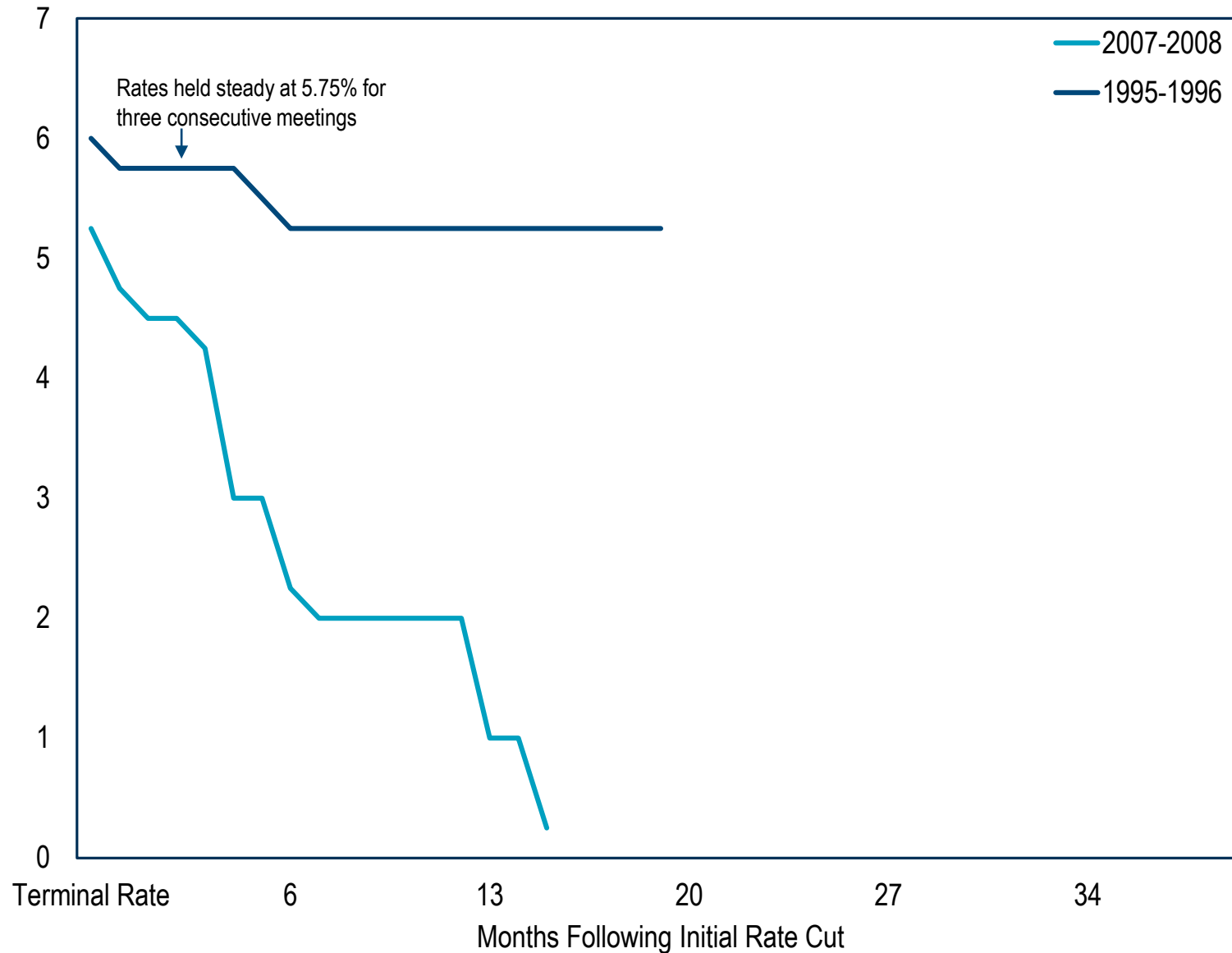


*“...**we make decisions meeting by meeting** and we didn't make any decisions about future meetings today. Those are going to depend on our ongoing assessment of the incoming data, the evolving outlook, and the balance of risks. So I really don't have anything for you on any specific meeting looking forward.”*

Federal Reserve Chairman Jerome Powell Speaking at FOMC Press Conference

March 20, 2024

More Tempered Pace of Rate Cuts Expected



Source: Federal Reserve/Haver Analytics

Rate Cuts Likely Delayed Until Third Quarter



“Given the uncertainty, I think there is some appeal to acting and then seeing how participants in the markets, businesses leaders and families respond to that.”

“My outlook right now is for our first cut to be sometime in the third quarter this year, and we’ll just have to see how the data progress.”

Atlanta Fed President Raphael Bostic, Published Letter on Atlanta Fed Website, Atlanta Chamber

March 4, 2024 and January 18, 2024

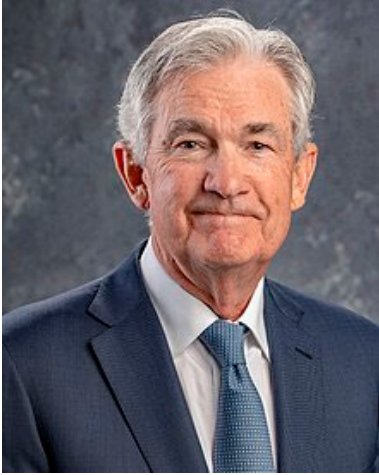


*“Sitting here today, I would say, **two or three cuts** would seem to be appropriate for me right now...But again, I don’t want to prejudge things, but that’s, that’s my gut, based on the data we have so far.*

Minneapolis Fed President Neel Kashkari, CNBC Interview

February 7, 2024

Fed Needs More Confidence Inflation is Moving Sustainably Down to 2%



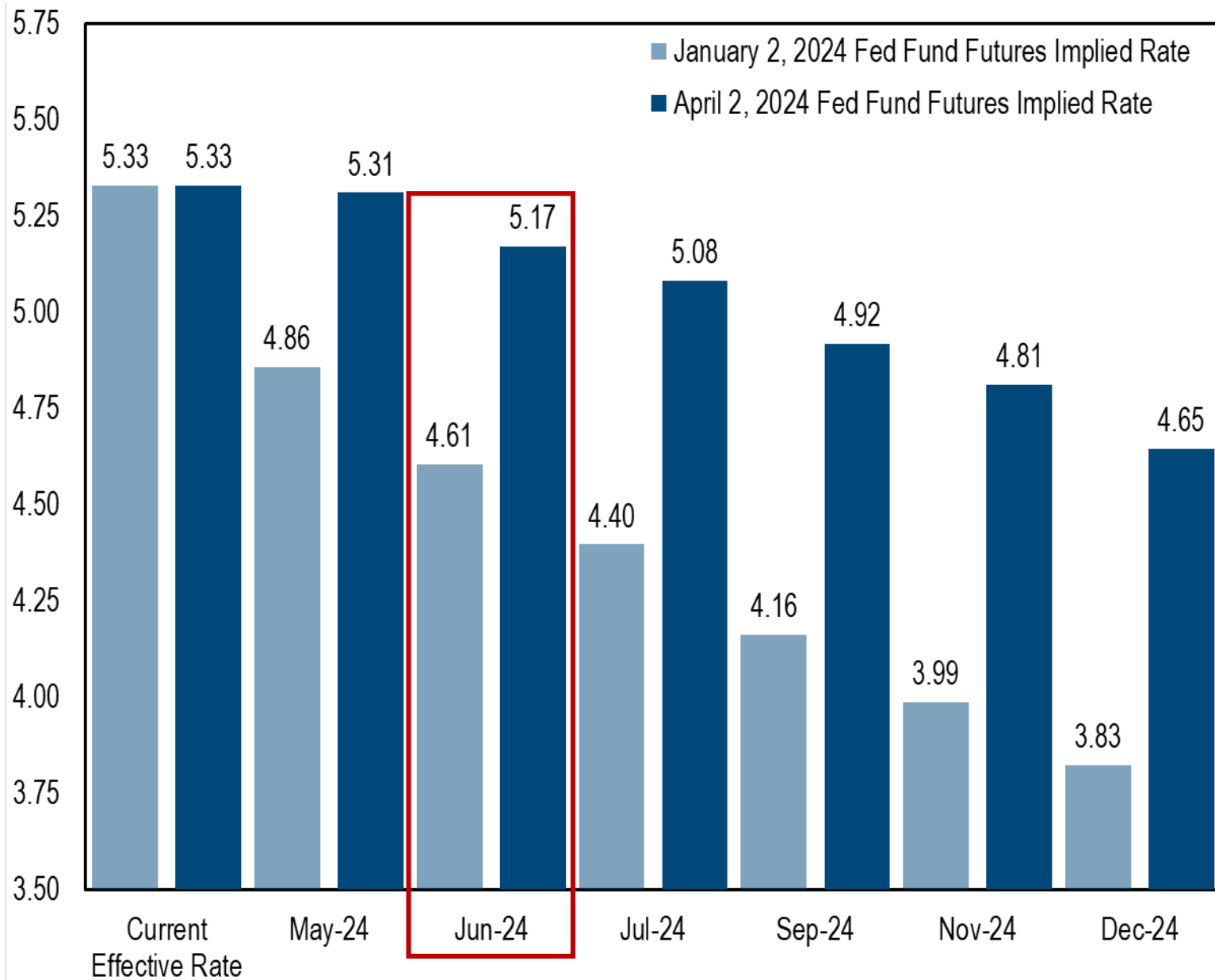
*“We’re **not going to overreact** to these two months of data, nor are we going to ignore them.”*

*“We’re looking for data that confirm the low readings that we had last year...And give us a **higher degree of confidence that what we saw was really inflation moving sustainably down to 2%.**”*

Federal Reserve Chairman Jerome Powell Speaking at FOMC Press Conference

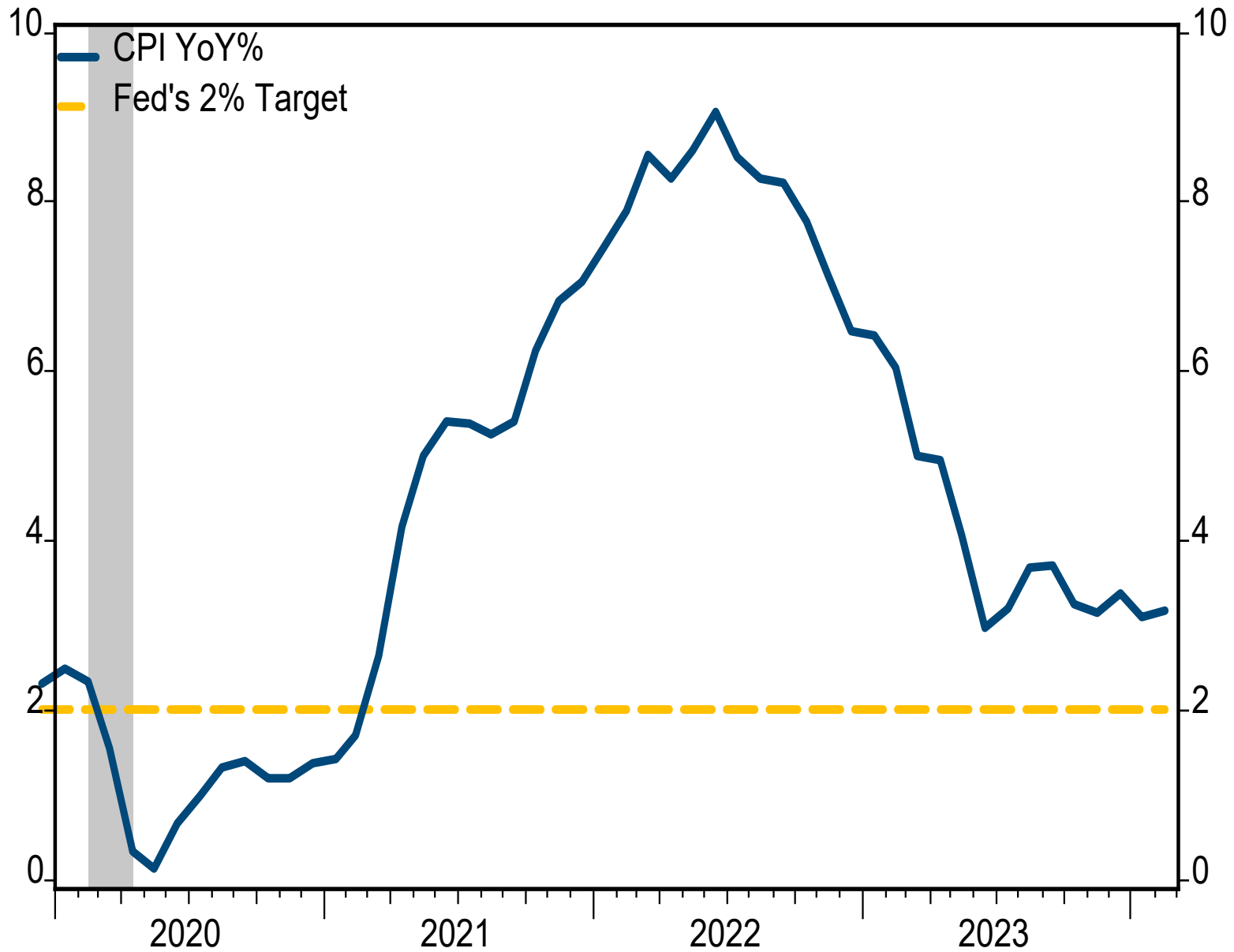
March 20, 2024

Investors Dial Back Expectations for Rate Cuts



Source: Bloomberg

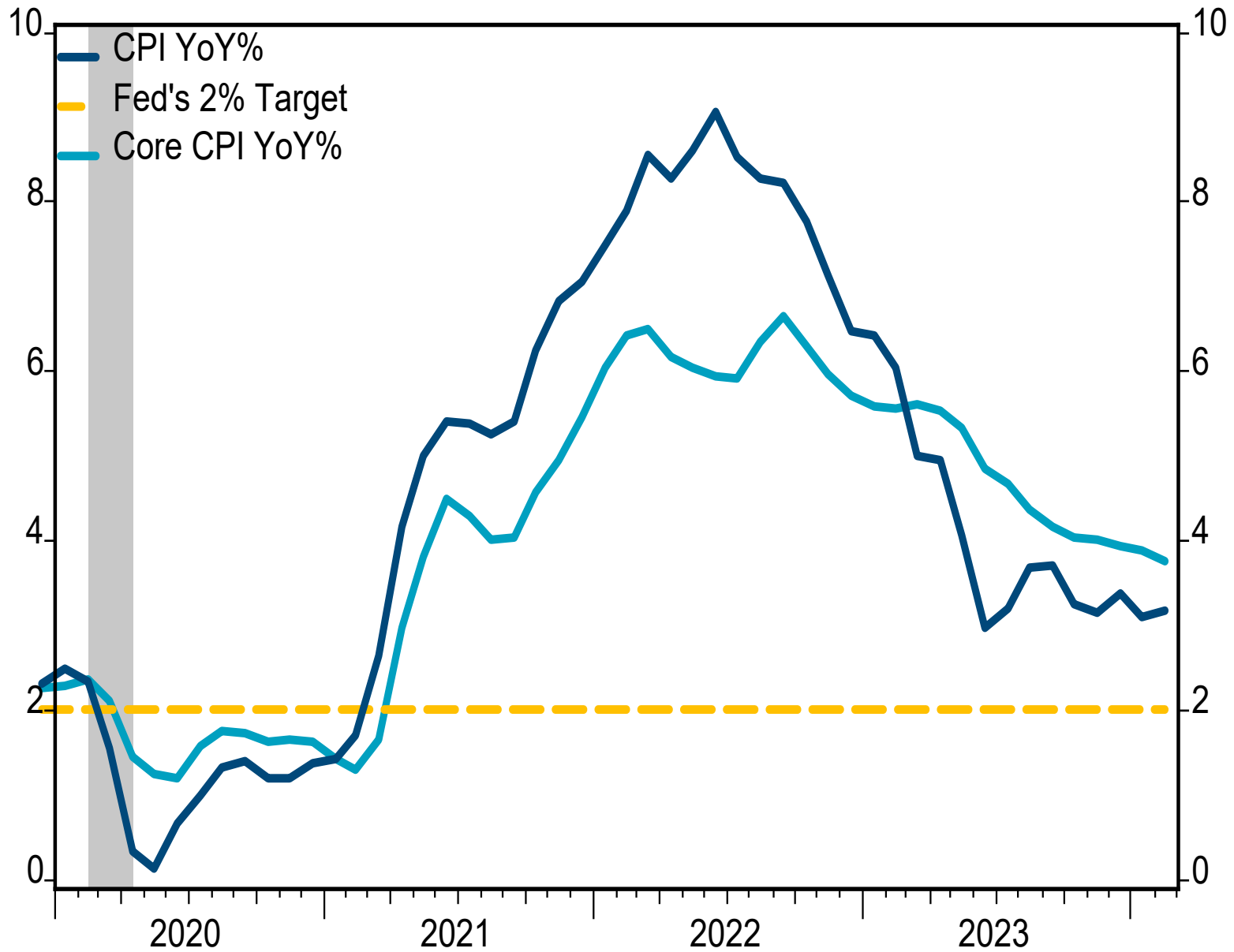
Headline Price Pressures Gain Momentum in February



Source: Bureau of Labor Statistics/Haver Analytics

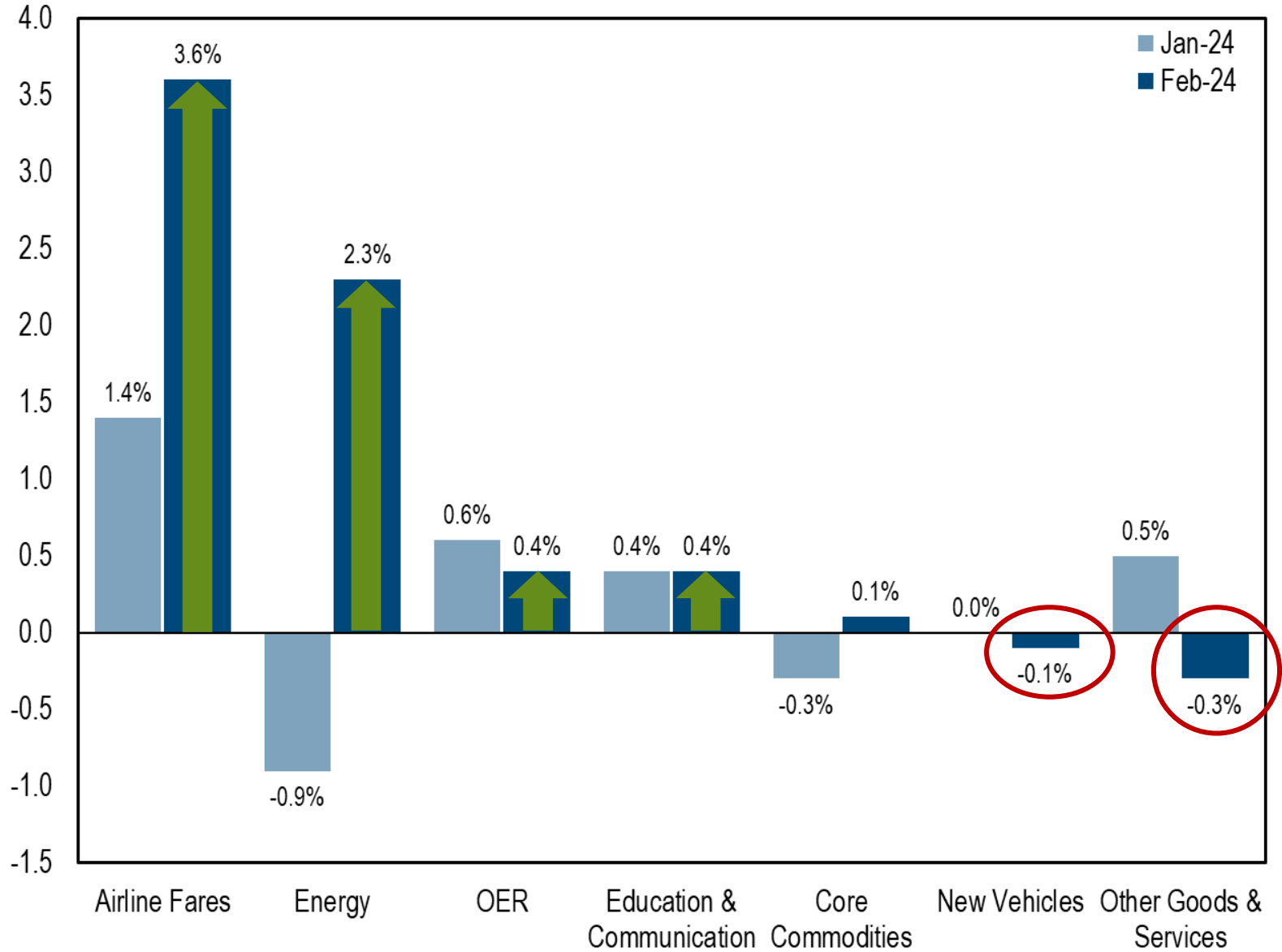
YoY = Year over Year
CPI = Consumer Price Index

Headline Price Pressures Gain Momentum in February with Core Elevated



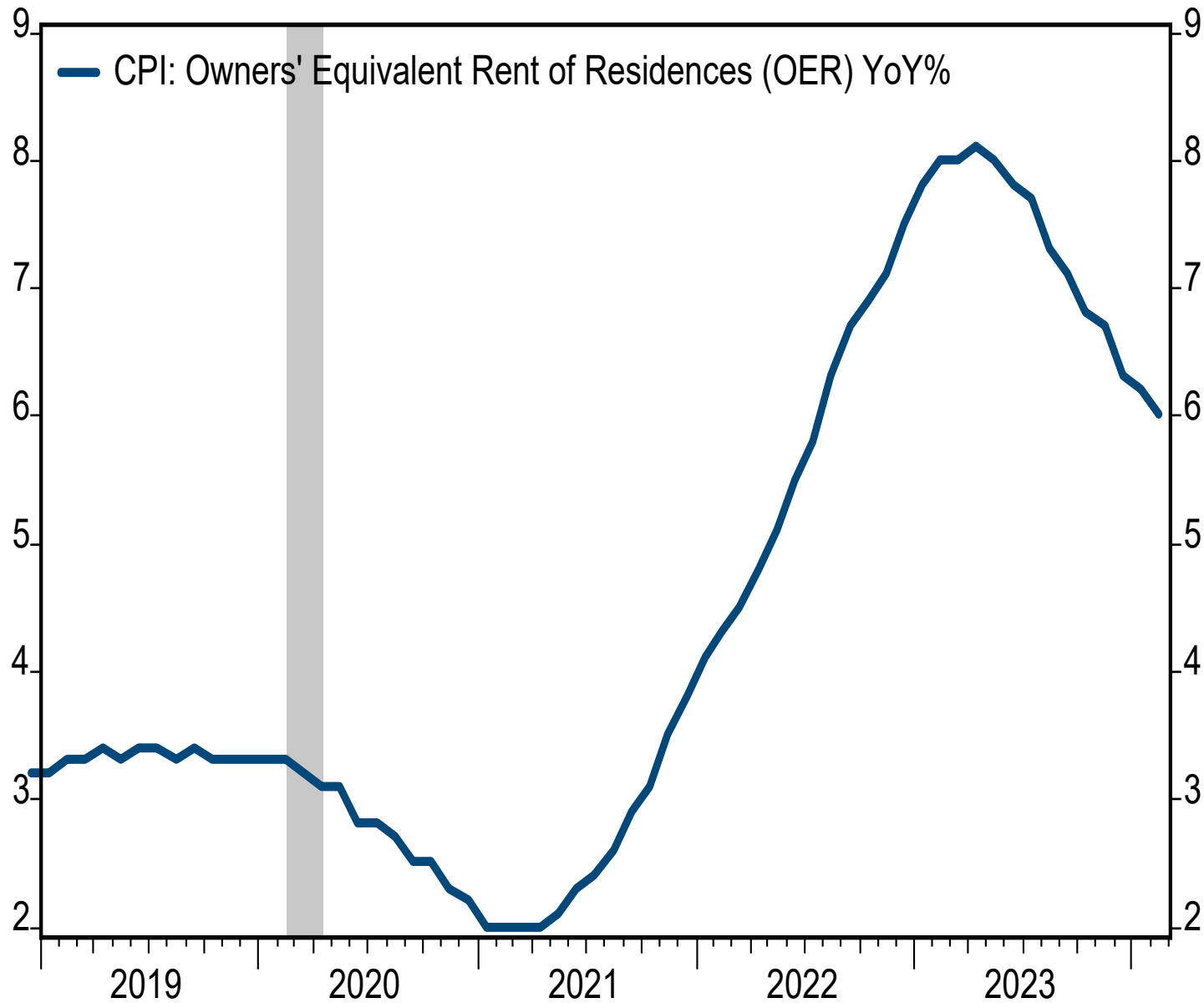
Source: Bureau of Labor Statistics/Haver Analytics

CPI Categories



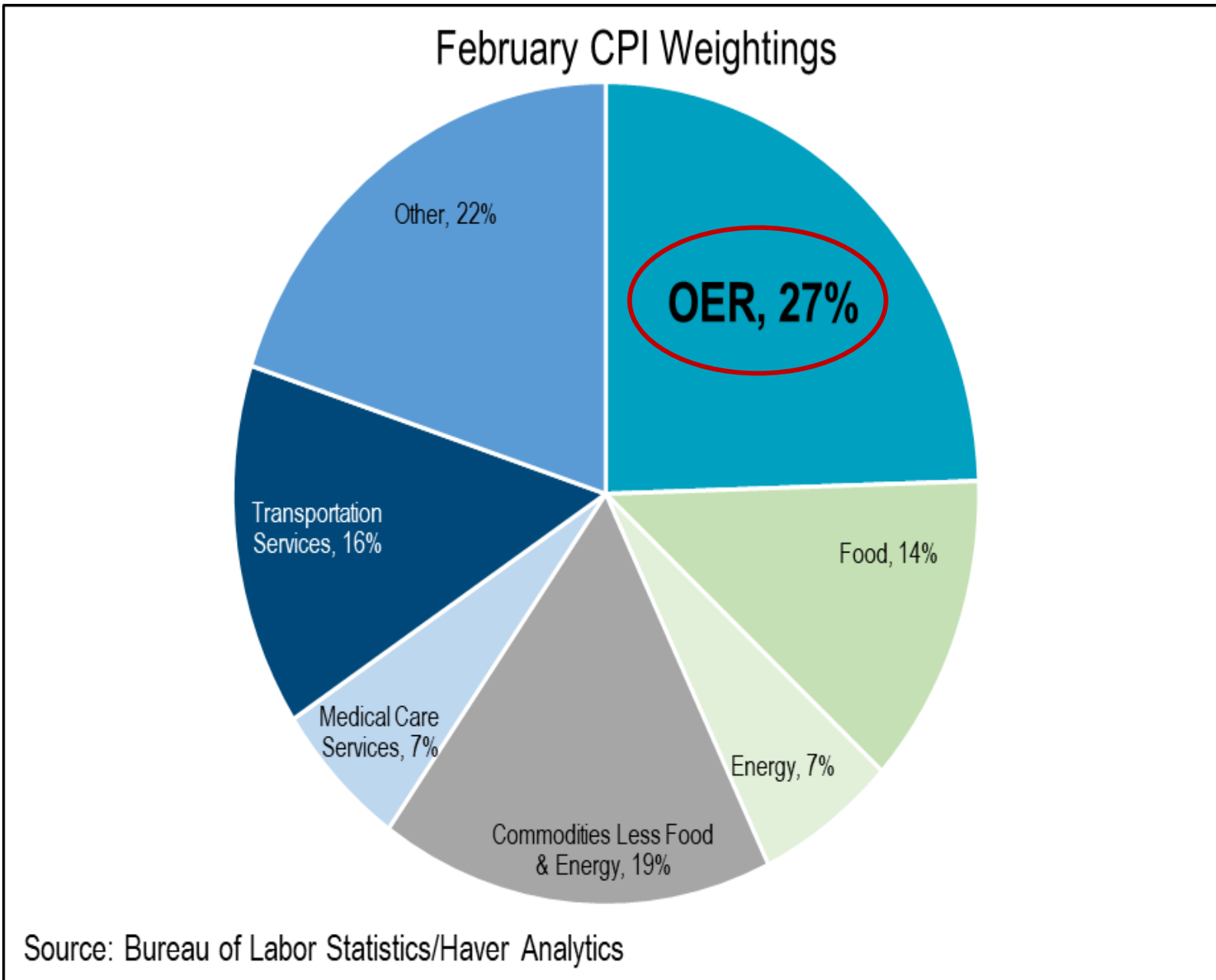
Source: Bureau of Labor Statistics/Haver Analytics

Lack of Improvement in OER

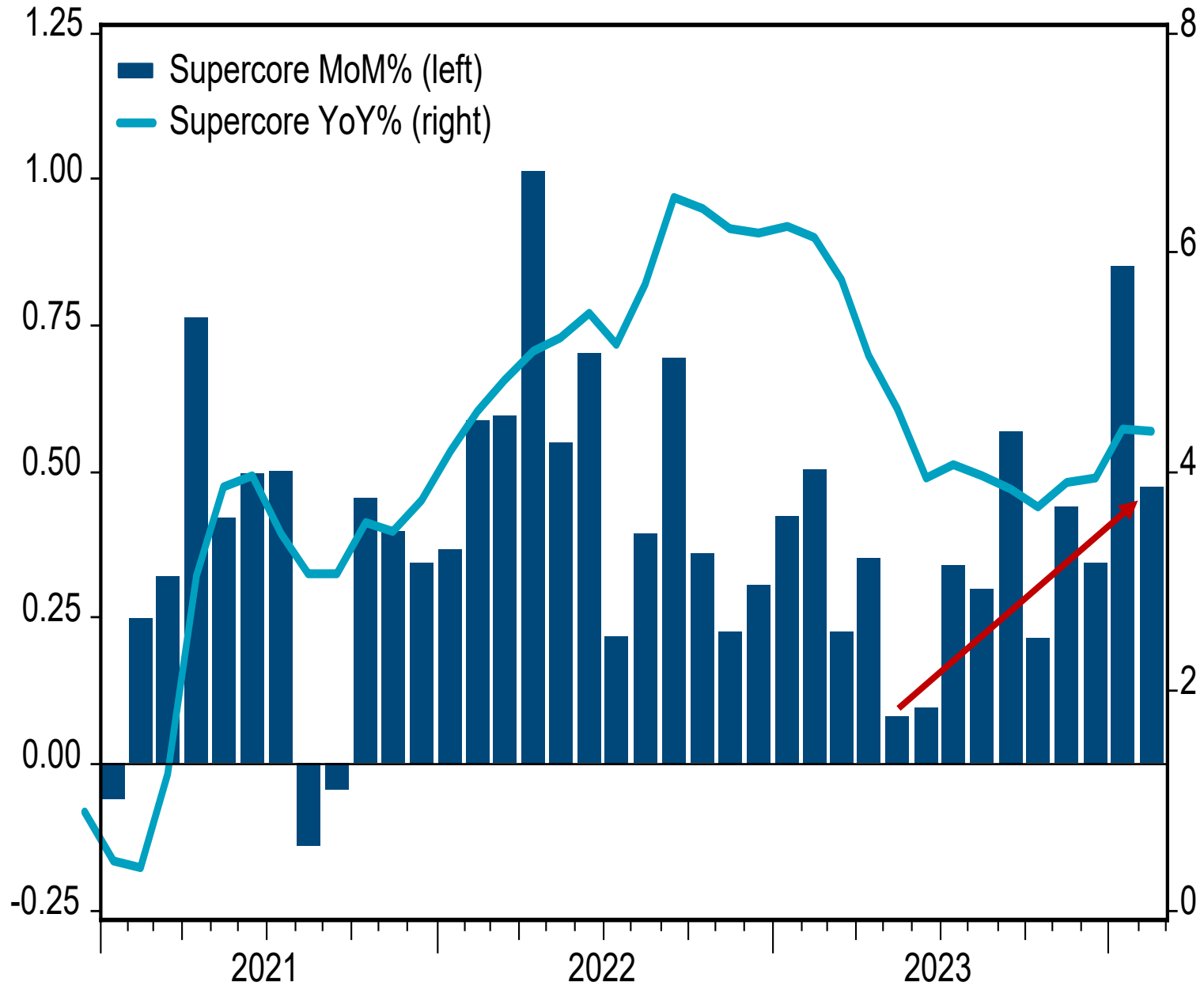


Source: Bureau of Labor Statistics/Haver Analytics

February CPI Weightings



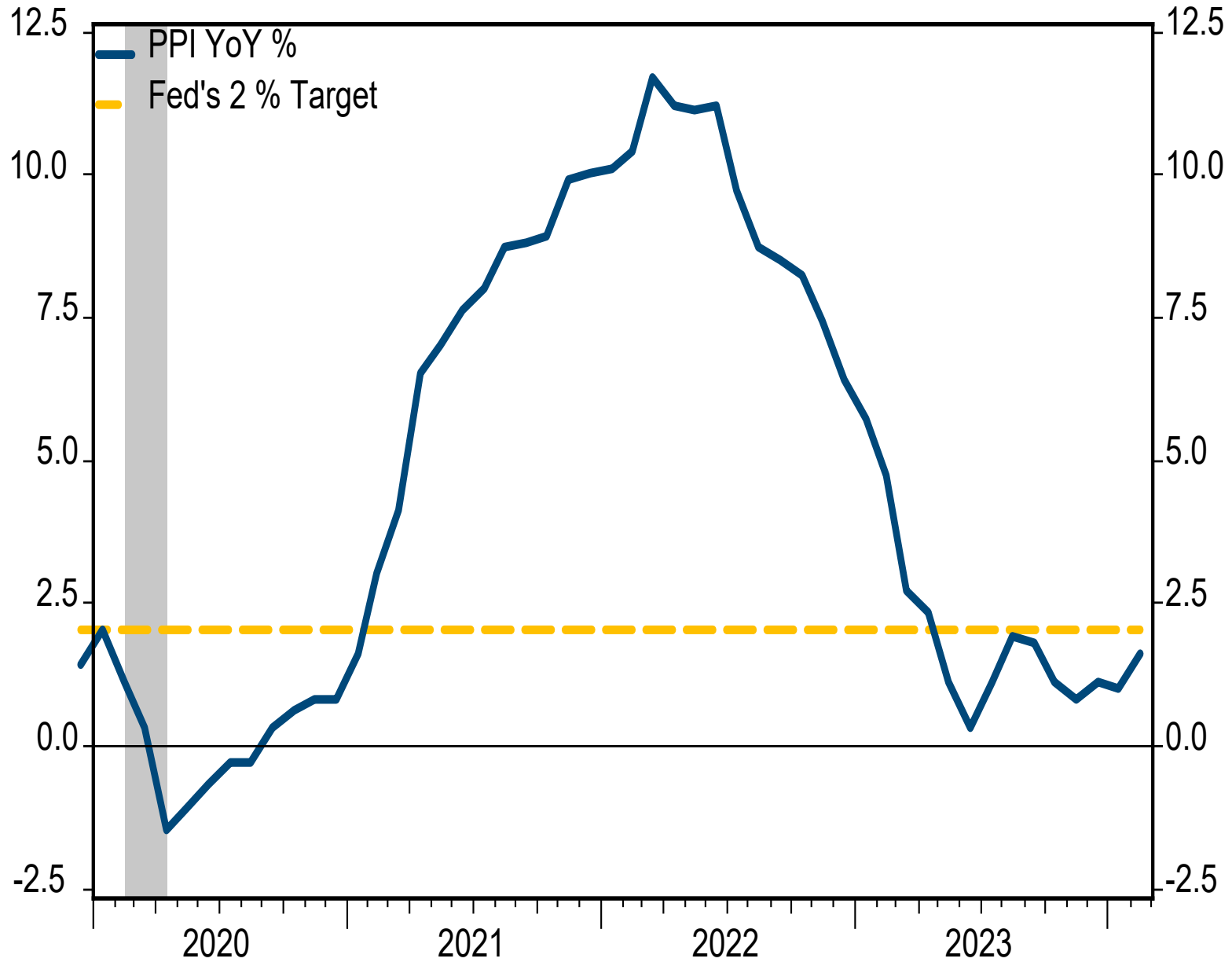
Acceleration in Supercore Inflation



Source: Bureau of Labor Statistics/Haver Analytics

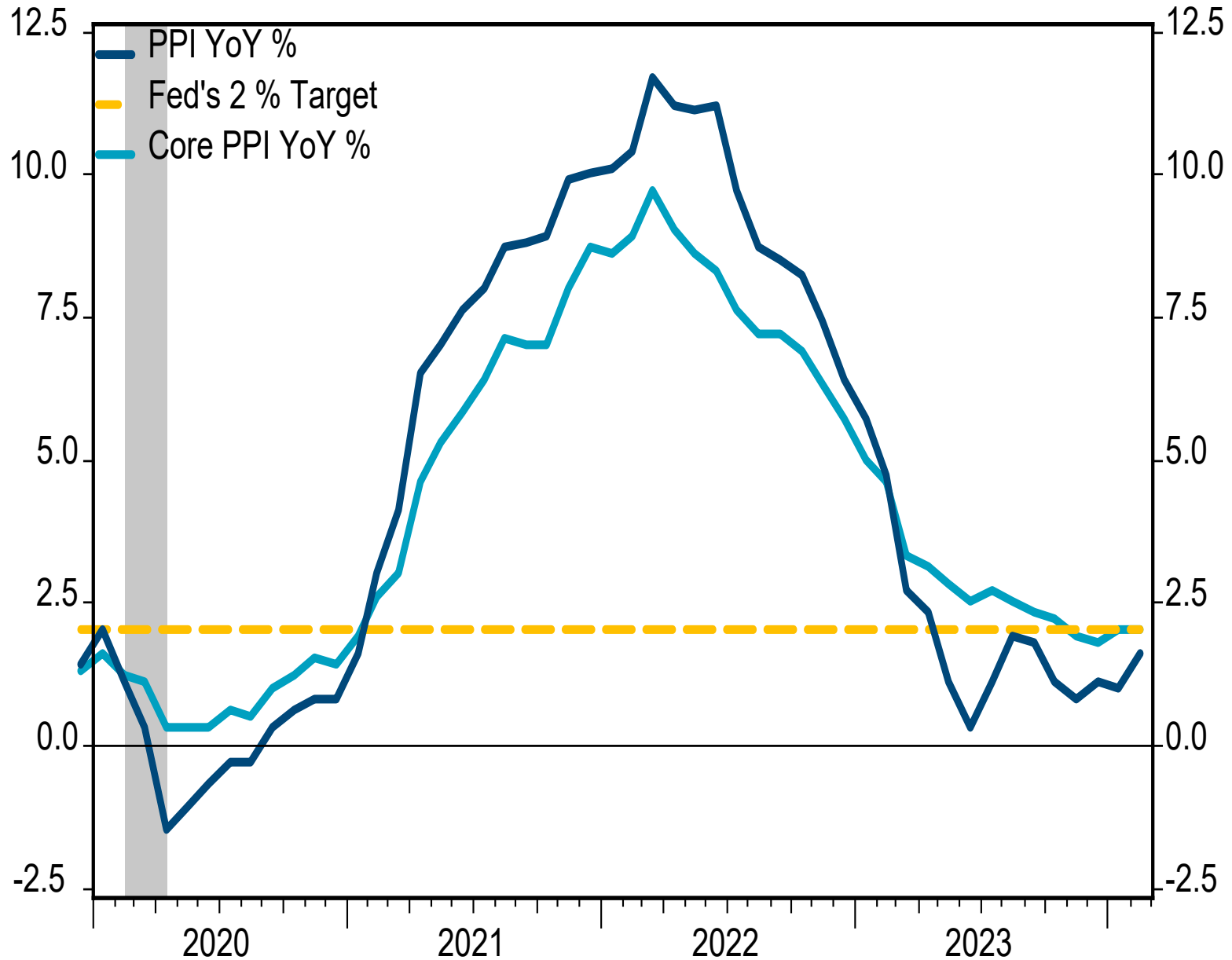
MoM = Month over Month

Uptick in Headline Producer Prices in February



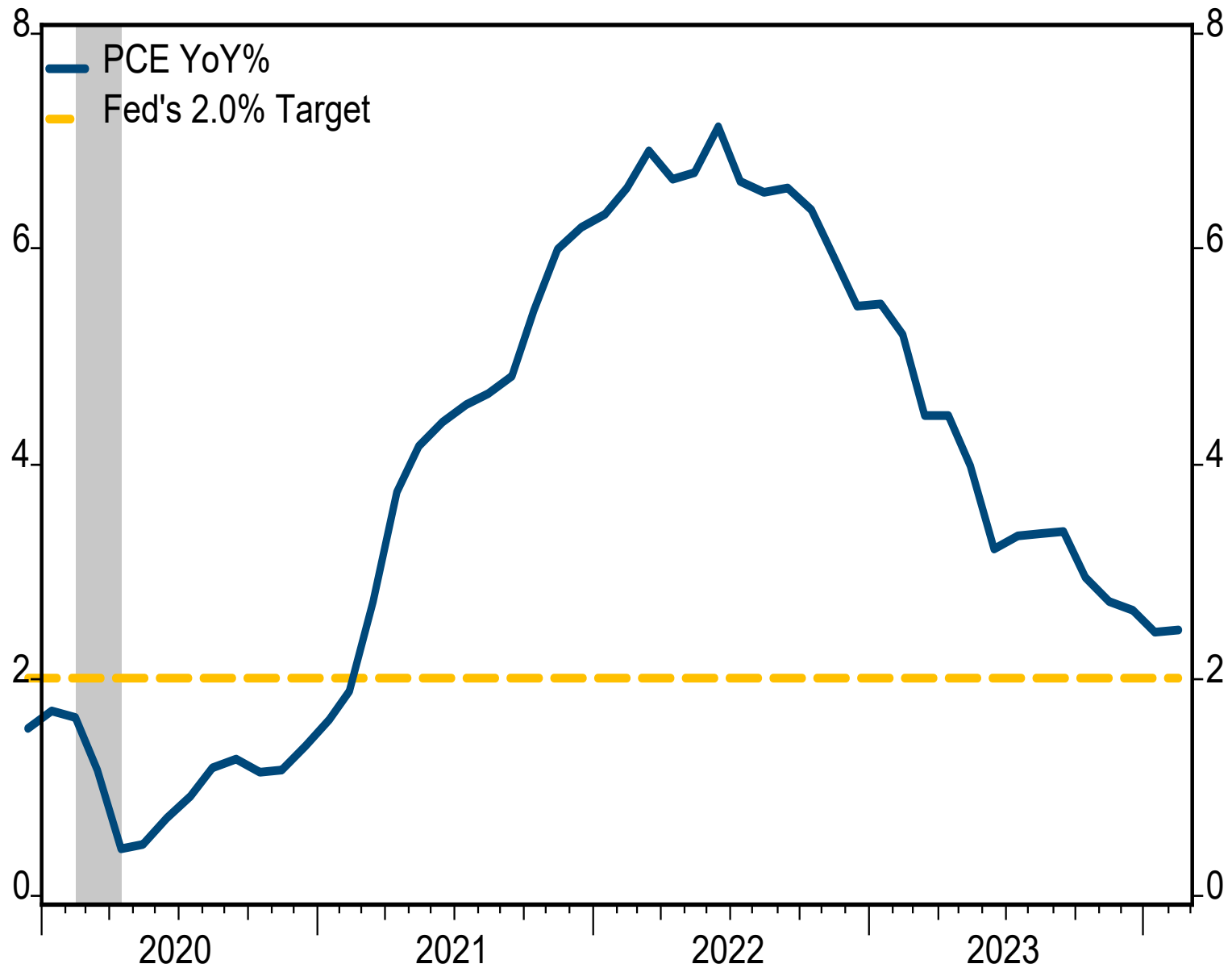
Source: Bureau of Labor Statistics/Haver Analytics

Core Producer Prices Remain Elevated



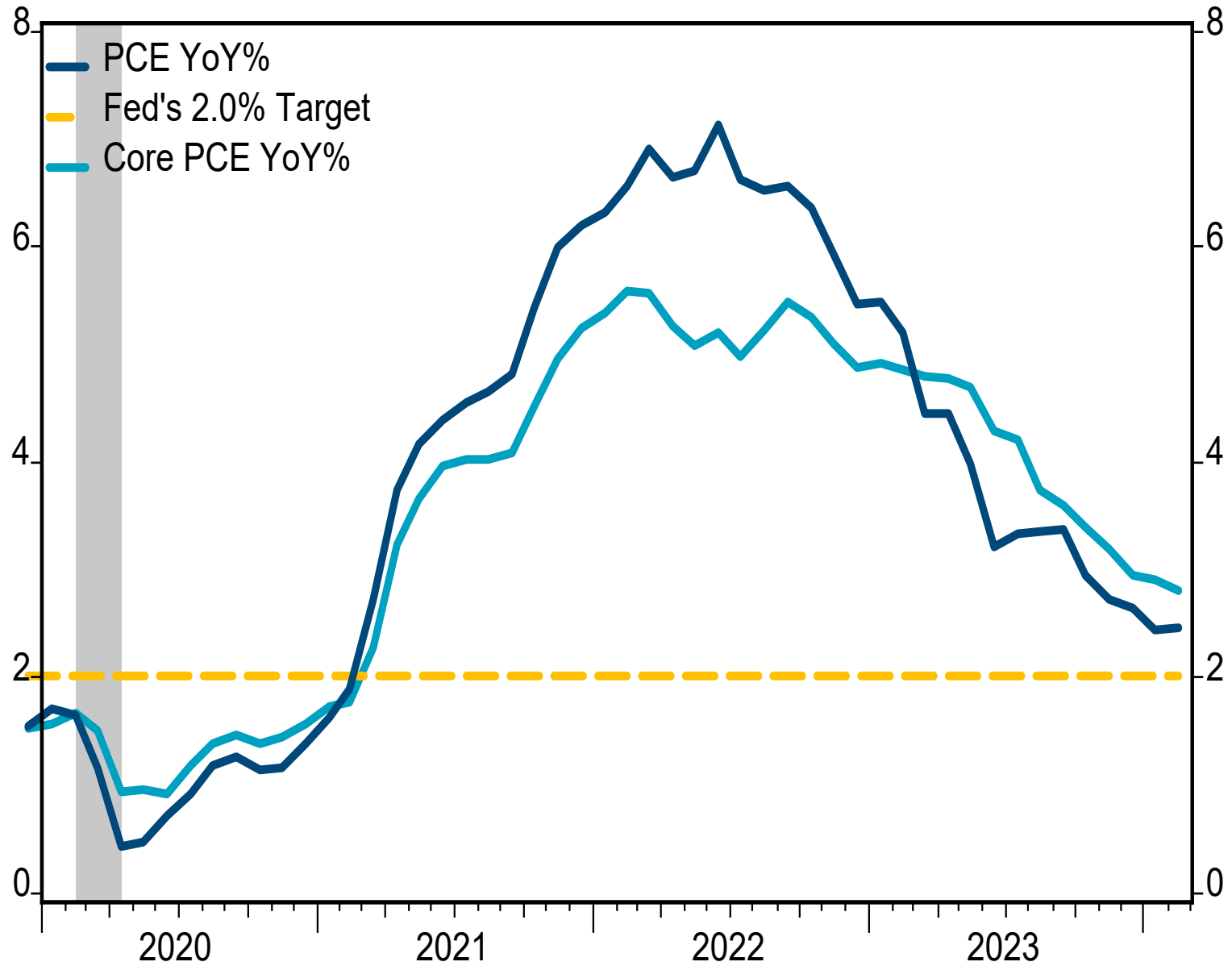
Source: Bureau of Labor Statistics/Haver Analytics

Headline PCE Ticks Higher in February



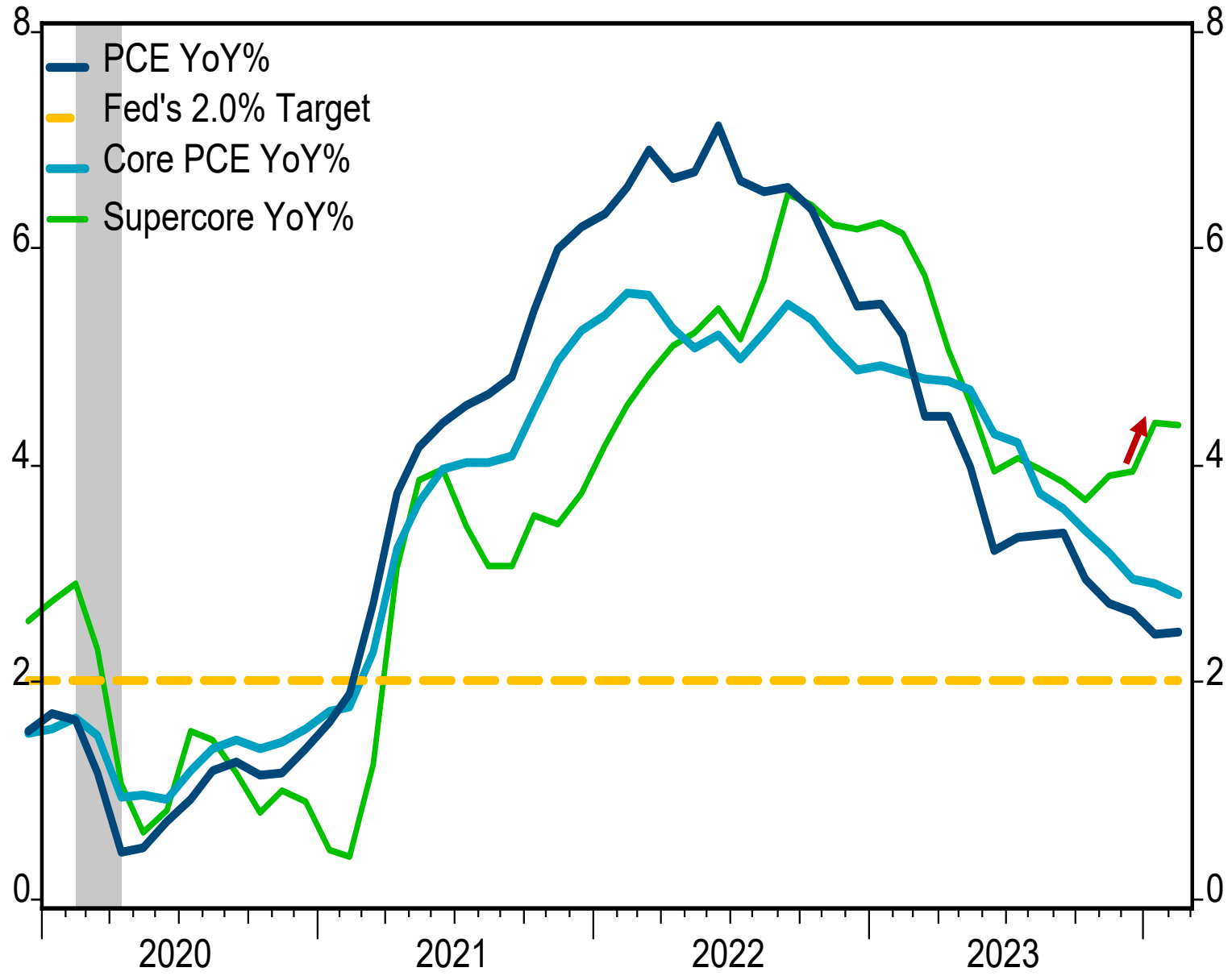
Source: BEA, BLS/Haver Analytics

Core PCE Remains Elevated



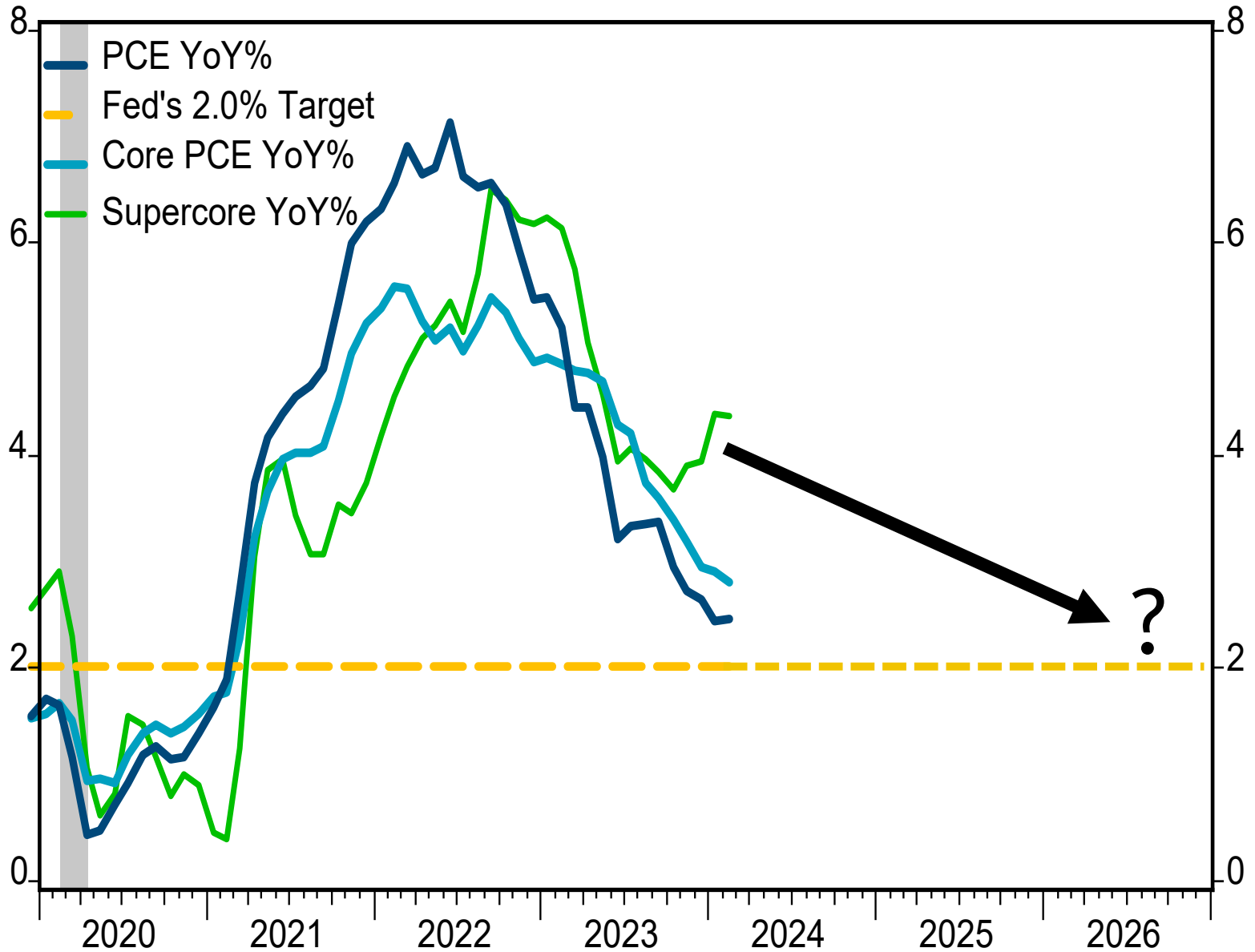
Source: BEA, BLS/Haver Analytics

PCE, Core PCE with Supercore



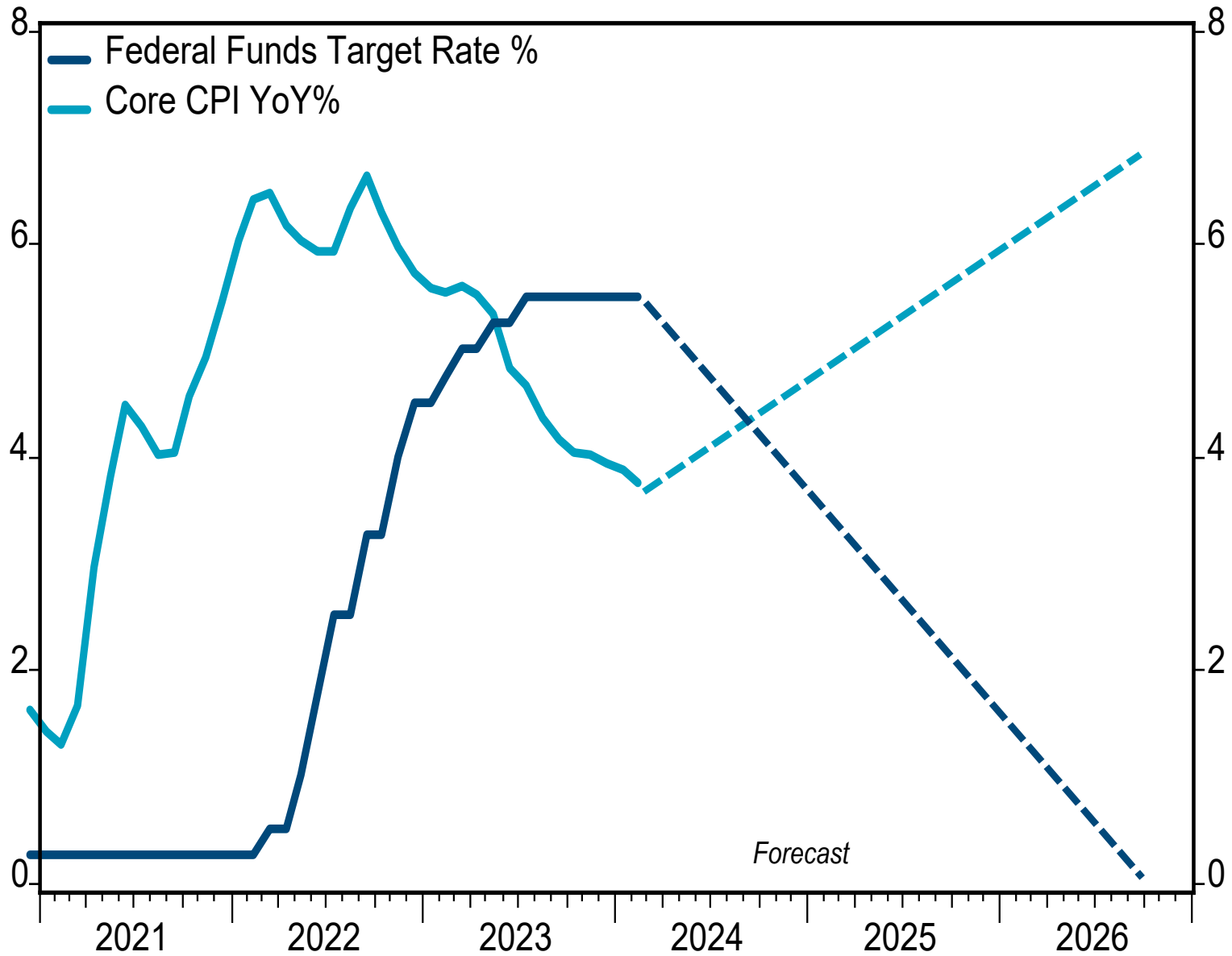
Sources: BEA, BLS/Haver Analytics

PCE, Core PCE with Supercore



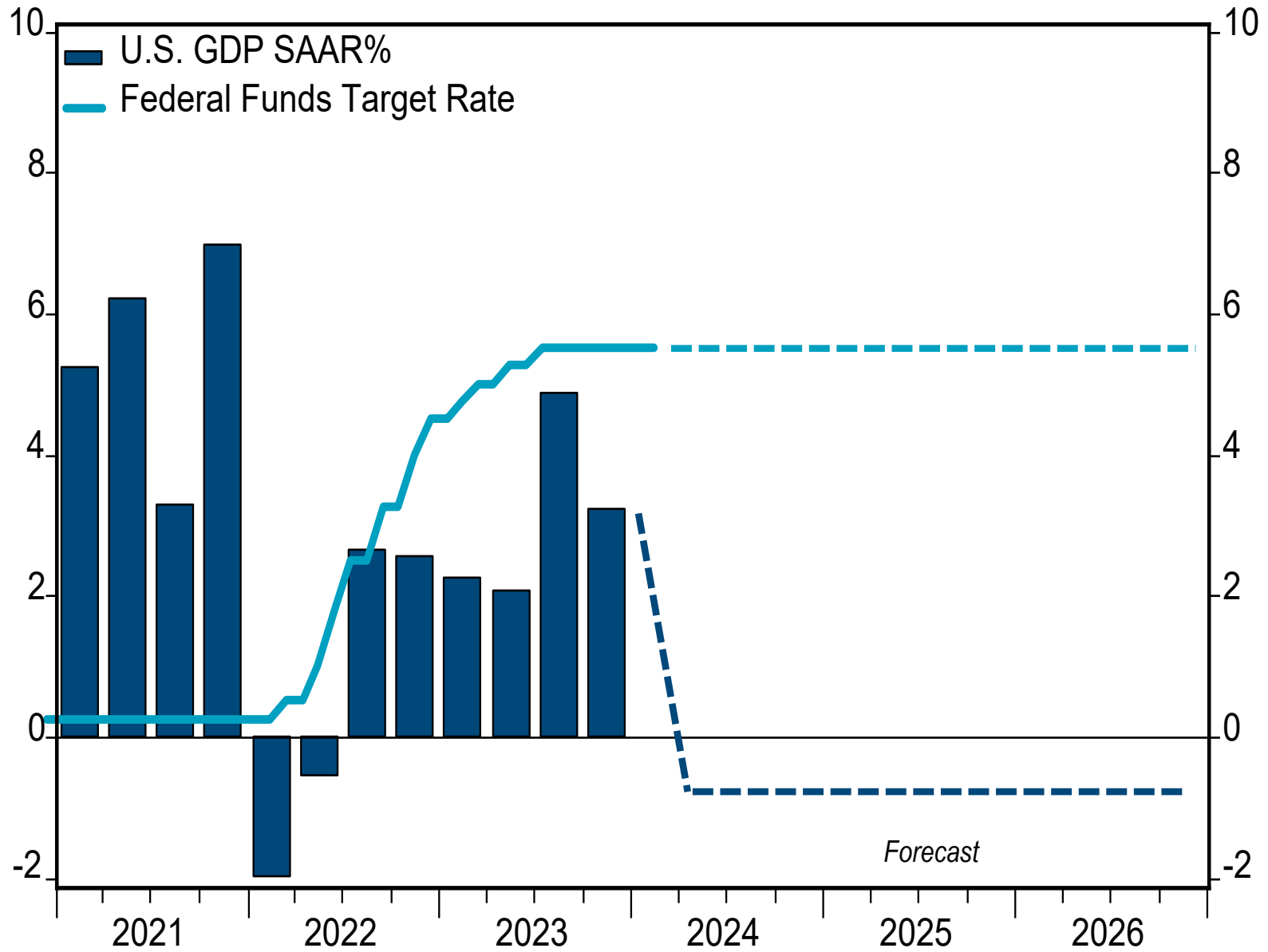
Sources: BEA, BLS/Haver Analytics

Rate Cuts: A Delicate Balance



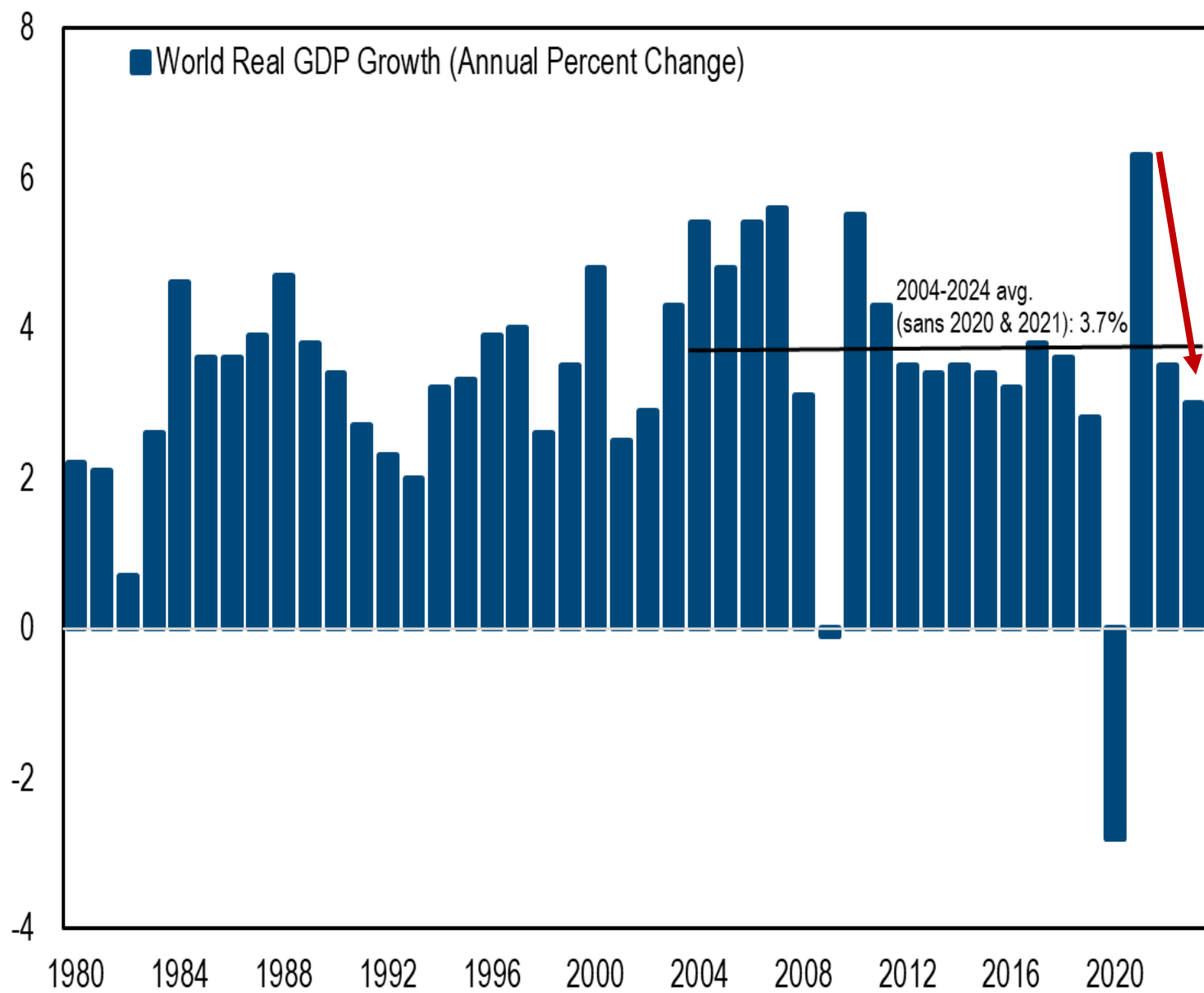
Sources: FRB, BLS/Haver

Rate Cuts: A Delicate Balance



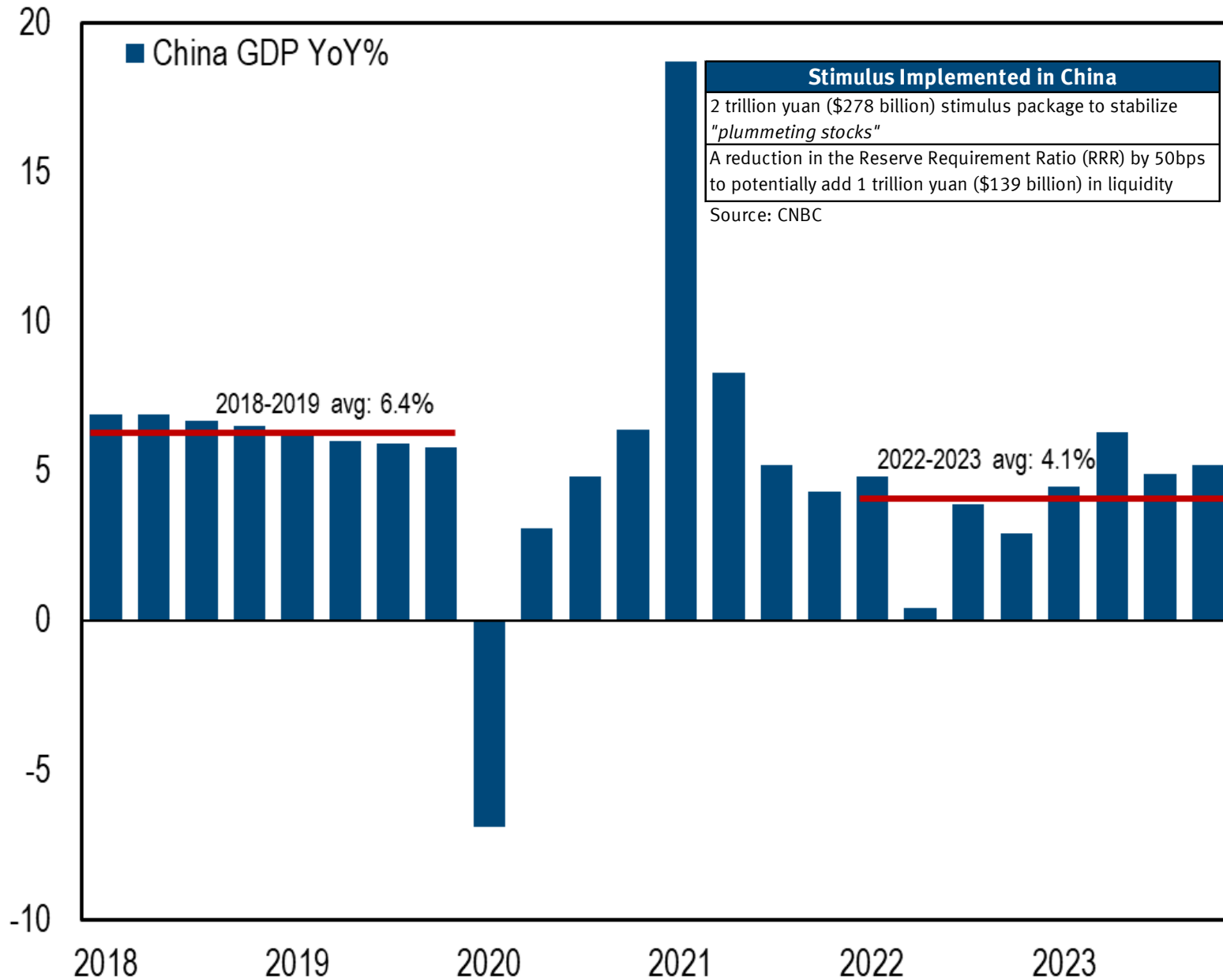
Sources: BEA, FRB/Haver

Slowing Global Demand

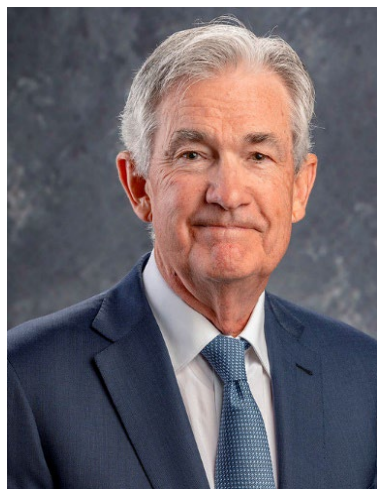


Source: IMF

Chinese Economy Slowing



Powell Comments on Fiscal Policy Pathway

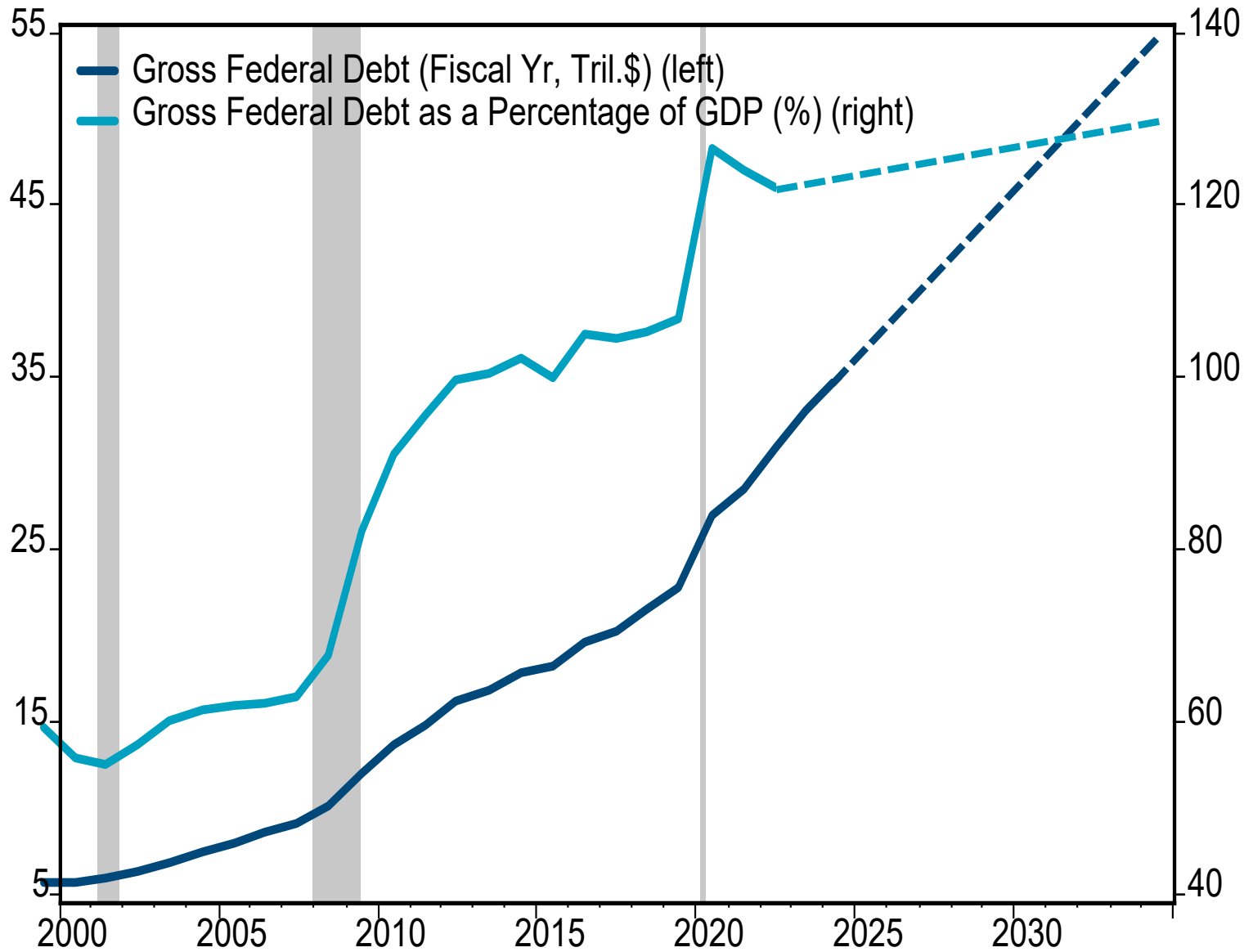


*“In the long run, **the U.S. is on an unsustainable fiscal path.** The U.S. federal government's on an unsustainable fiscal path. And that just means that the debt is growing faster than the economy. So, it is unsustainable. **I don't think that's at all controversial. And I think we know that we have to get back on a sustainable fiscal path.** And I think you're starting to hear now from people in the elected branches who can make that happen. It's time that we got back to that focus.”*

Federal Reserve Chairman Jerome Powell, 60 Minutes Interview

February 4, 2024

U.S. Debt Continues to Increase Risking Pressure On Inflation, Longer-Term Rates



Sources: CBO/Haver Analytics

Disruptions to Waterways

- Major shipping firms diverting ships away from Suez Canal (the quickest route between Europe and Asia) due to attacks on vessels by Iran-backed Houthi militants in Yemen
- Ships are resorting to the Cape of Good Hope route across the southern coast of Africa, increasing the travel time by 30-50%
- Excess capacity in 2023, according to the Organisation for Economic Co-operation and Development, due to new container ship orders should help alleviate or moderate some cost pressures
- Extreme drought in Panama has caused disruptions to shipping through the Panama Canal (responsible for about 5% of the world's maritime trade and 40% of U.S. container traffic); with water levels below normal, authorities are allowing only 24 ships to cross a day, down from 38



Shipment Delay

Hello,

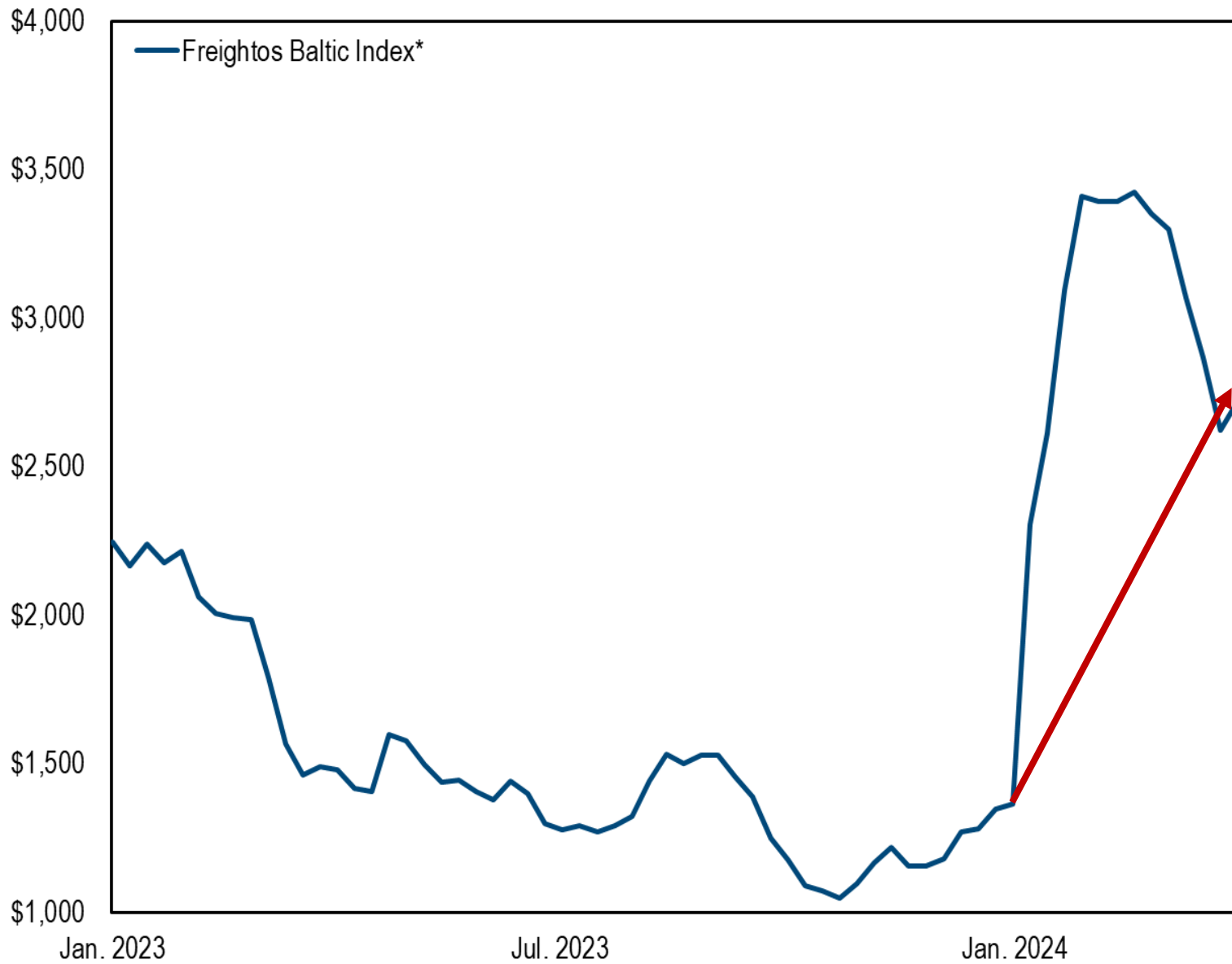
There is a delay in shipping your order because of a supply chain issue. We'll make every effort to get the delayed item to you as soon as possible. If you still want this item, please confirm below. We apologize for the delay.

Details

Order #113-8025692-6142646

Placed on Wednesday, January 24, 2024

Elevated Shipping Costs



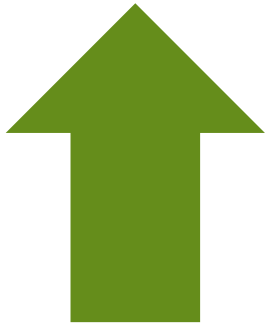
Source: Bloomberg

*The index is a weighted average cost of a 40' container over twelve route indexes for ocean freight.

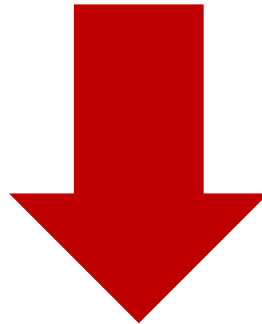
Supply vs. Demand Inflation



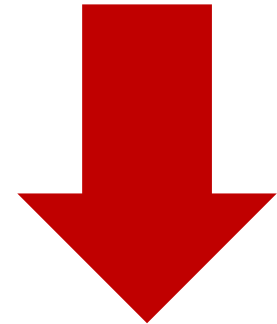
Consumer Remains Resilient Despite Higher Rates



Federal Funds Rate

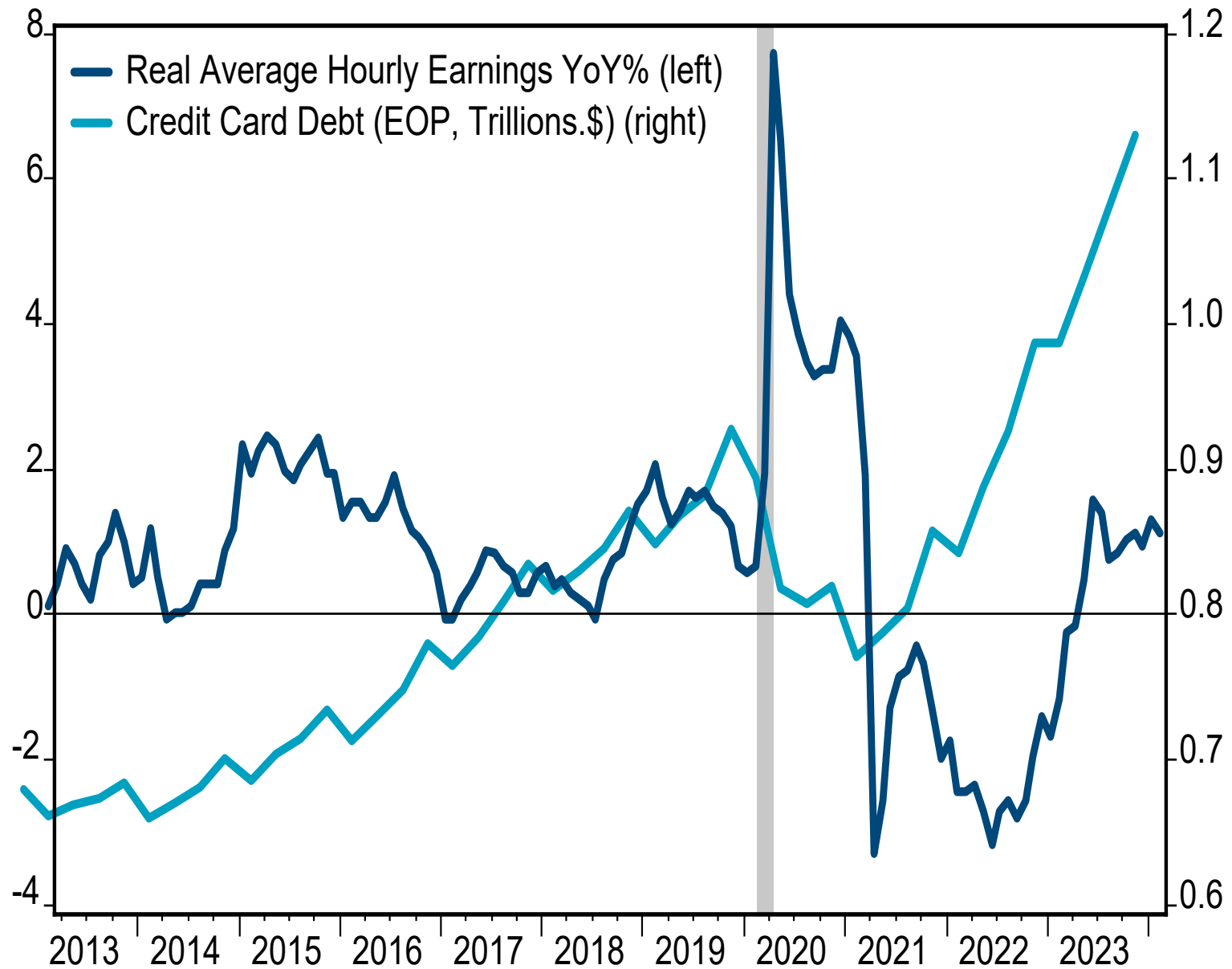


Consumer Spending



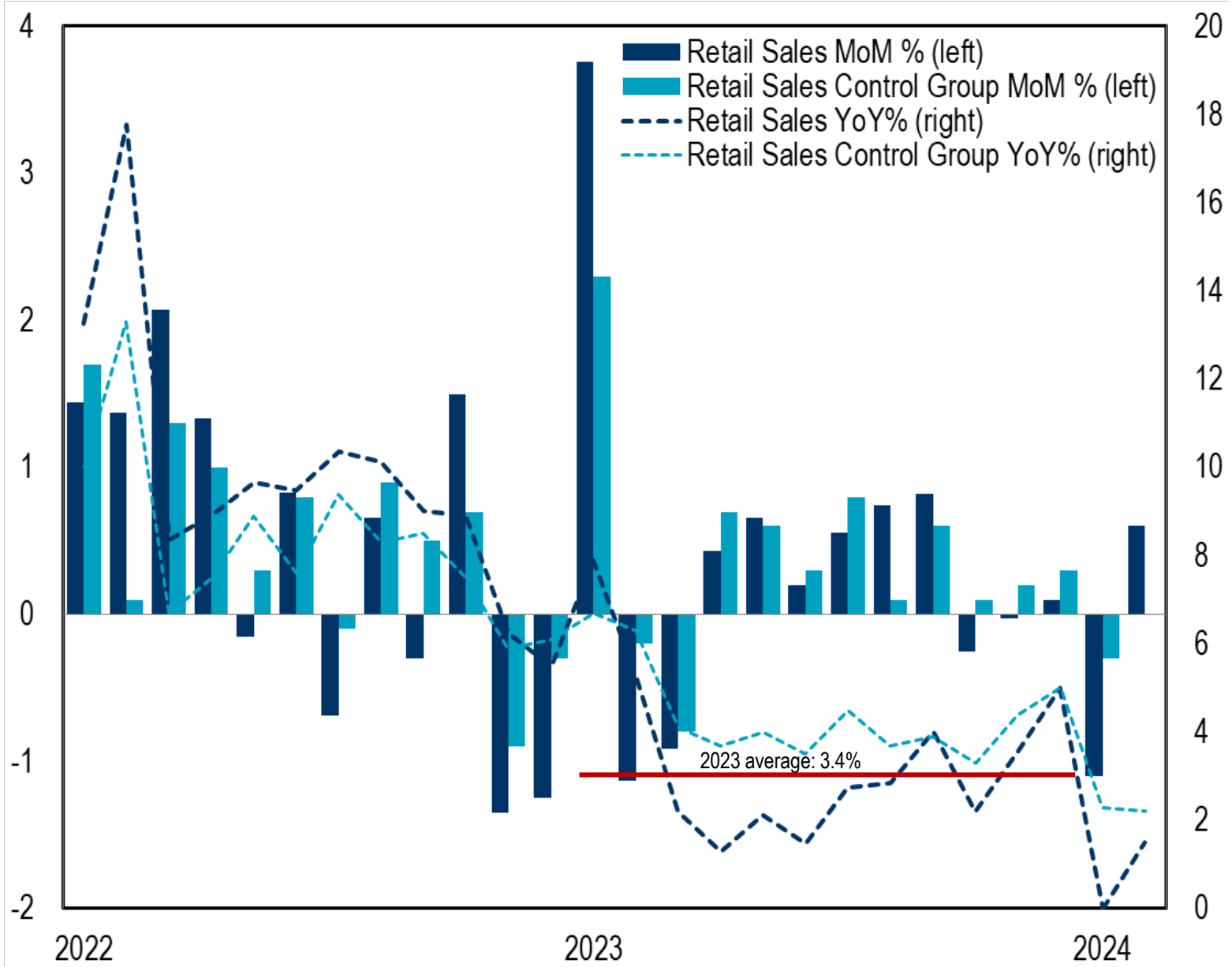
Inflation

Consumer Relying on Organic and Inorganic Supports to Spending



Sources: BLS, FRBNY/EF/Haver

Retail Sales Volatile With Broader Momentum Minimal But Positive



Source: Census Bureau/Haver Analytics

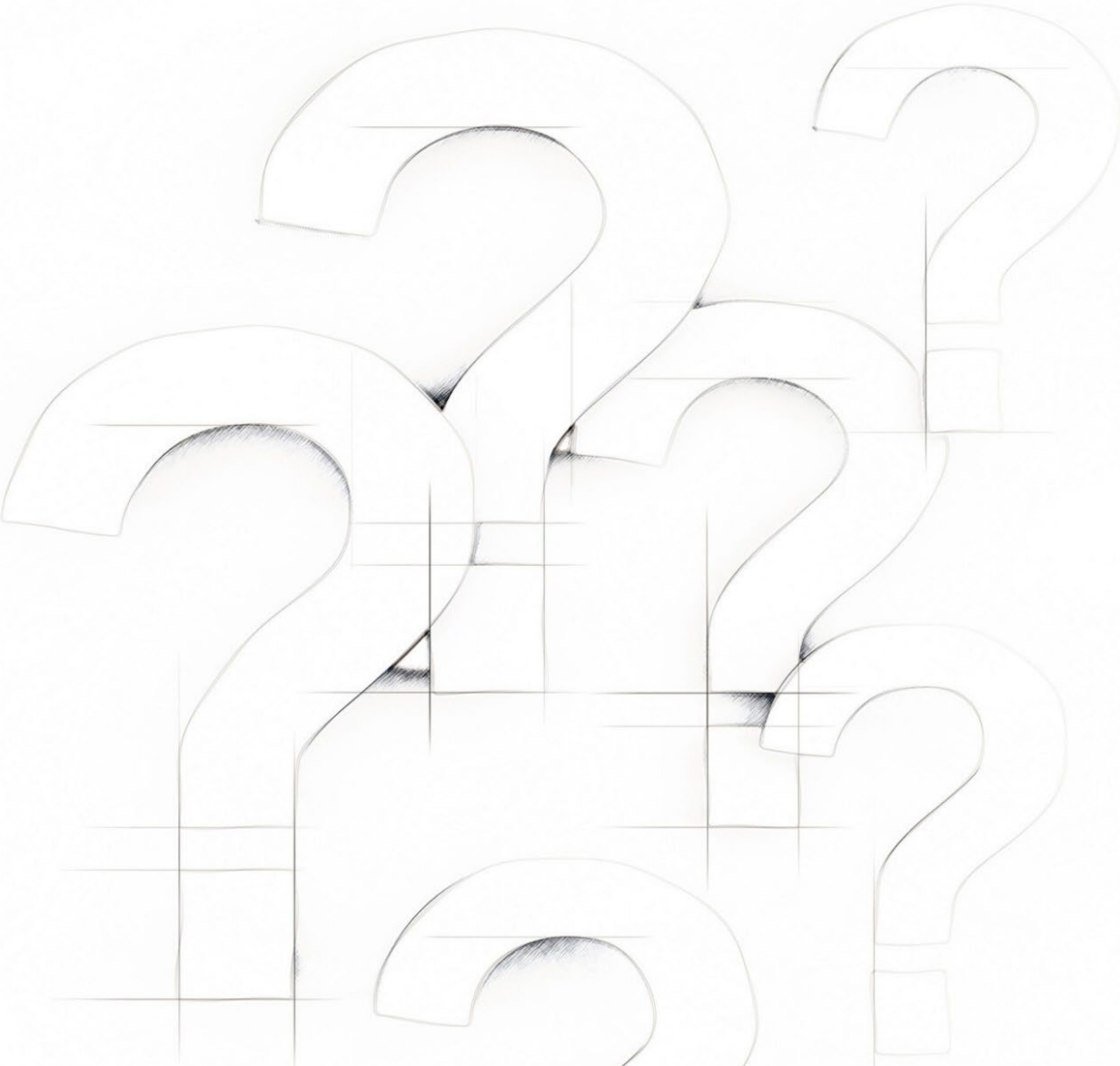
Far From Ideal Market Conditions with the Fed's Price Stability Mission Not Yet Complete

- Bloated and growing government balance sheet
- A reduction in longer-dated yields
- Rising equity market valuations
- A more confident and “*spendy*” consumer
- High investor confidence for a near-term rate cut
- International and geopolitics risks

Inflation to Ultimately Affect Rate Cut Pathway

- Base case: Two rate reductions in second half
- A material rise in inflation: Fed likely to reengage
- Stubbornly elevated inflation: May allow Fed to cut followed by an extended pause
- Slowly declining inflation: Fed pursues lower rates at a tempered pace, remaining above neutral beyond 2025

Q&A



Thank you

Disclosures and Disclaimers

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The Freightos Baltic Index is a weighted average of the twelve underlying regional route indexes for ocean freight and measures 40' container prices.

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