

MARCH 17, 2025

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Two views on inflation

The thing about inflation is that economists, reporters, investors, etc., focus on the change in its annual rate but consumers face the actual increase in prices. The latest example of this ever-present dichotomy are the Consumer Price Index (CPI) and Producer Price Index (PPI) reports for February, both released last week.

They showed that price pressures on consumers and wholesalers softened somewhat from January. Headline CPI rose 0.2% month-over-month (m/m) and 2.8% year-over-year (y/y), compared to 0.5% and 3.0% in January. Core CPI rose 0.2% m/m and 3.1% y/y, compared to 0.4% and 3.3% in January. Similar story for PPI: Headline rose 0.0% m/m and 3.2% y/y, compared to 0.4% and 3.7% in January; core rose 0.2% month-over-month (m/m) and 3.3% y/y, compared to 0.3% and 3.4% in January. The m/m changes are important long-term indicators, but even the fact that the headline PPI inflation rate did not rise or fall from January only means that producers experienced a high annualized inflation of 3.2%.

The sign that the dichotomy is real comes in the form of the University of Michigan's consumer sentiment survey. On Friday, its preliminary results for March plummeted compared to February: falling from 64.7 to 57.9. That's the lowest it has been since 2022, when inflation was soaring.

Economists? They were expecting around 63.2—clearly, they aren't the arbiters of people's checkbooks. All of the above could mean an economic slowdown is approaching—exacerbated by the Trump trade war—and could push the Federal Reserve to cut rates. Although we don't expect the latter at the Federal Open Market Committee meeting this week, we will get a better sense of policymakers' thoughts with its updated Summary of Economic Projections.

Views are as of the date above and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.

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G40461-19 (3/25)