FLORIDA PRIME™

Weekly Commentary

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Much for the Fed to consider

The headline figure declined from a year-over-year (y/y) increase of 5.1% in March to 4.2%. That's quite a plummet, but core PCE, which excludes data that usually changes rapidly, only slipped, decreasing from a y/y 4.7% in March to 4.6%. Furthermore, monthly core increased at the same level in April as March, 0.3%. These numbers show inflation has not been beaten. That's why the markets and we expect the Federal Open Market Committee to raise rates to a range of 5-5.25% this Wednesday, meaning a hike of 0.25%.

Policymakers will have another bank failure to talk about at the meeting. Already concerned about the impact of March's banking stresses on the economy, the FDIC announced on May 1 that it briefly seized and then sold troubled First Republic Bank to JP Morgan. The agency secured the deposits, and at this time we don't see further contagion in the banking system. But this adds more fuel to the fire for the argument that financial conditions—specifically bank lending—will tighten. Many on the FOMC think that restrictive credit conditions work in the same direction as tighter policy.

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