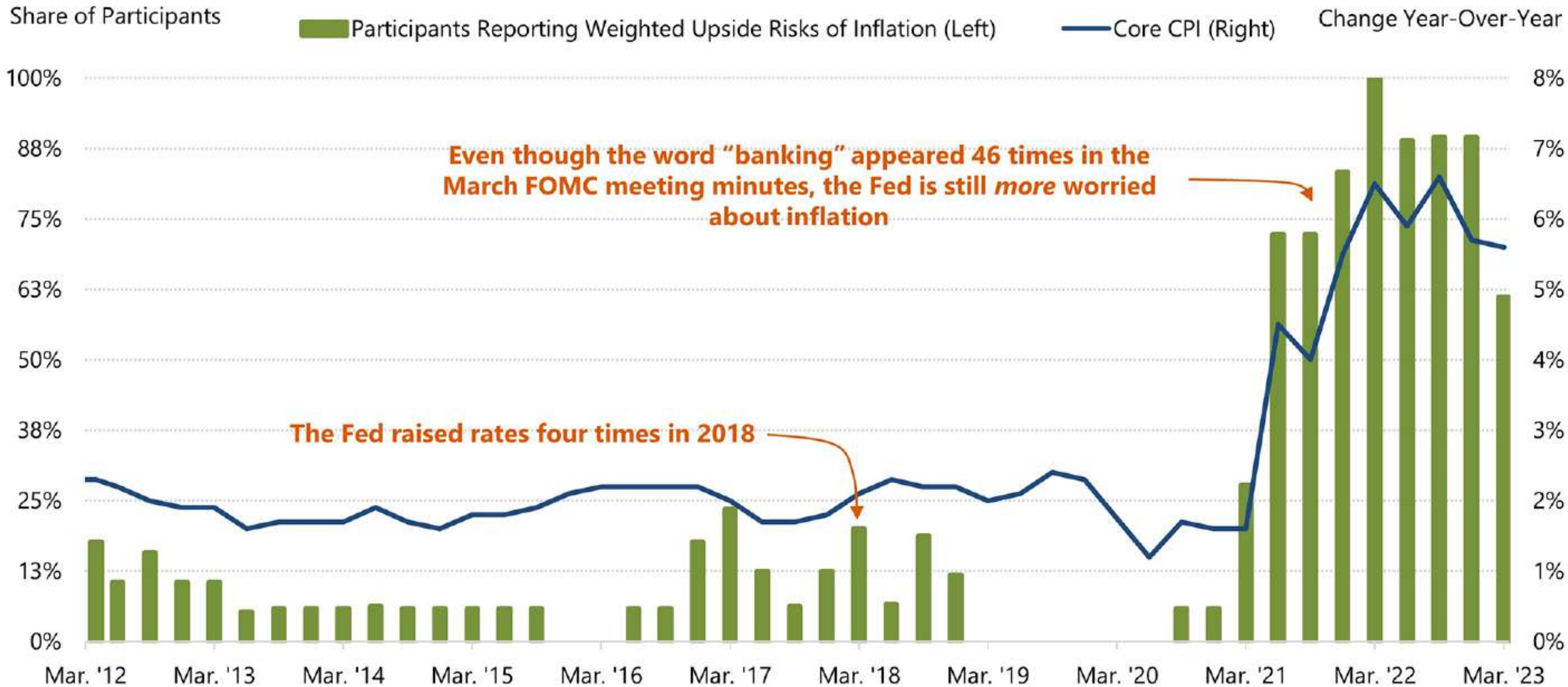
Upside Down & Inside Out

FOMC Participants Worried About Higher Inflation Versus Core CPI

For The Week Ending 04/14/2023



Source: Federal Reserve, Bureau of Labor Statistics

This week, minutes from the March FOMC meeting revealed policymakers still worried more about "unacceptably high" inflation than a banking crisis. The March Consumer Price Index (CPI), also released this week, reminded investors why the Fed remains so vigilant. Core CPI, excluding food and energy, rose 0.4% month to month and 5.6% versus a year ago. Further, the minutes revealed that "participants generally saw risks to inflation as weighted to the upside." Let's say core CPI persists in the 0.4% range for the rest of the year. In that case, core CPI would be near 5% in December—an utterly unacceptable outcome for central bankers. We don't read the minutes because policymakers are prescient; we read the minutes to see policymakers' mindsets. Since a banking crisis did not deter the Fed from hiking in March *and* core inflation remains sticky, the Fed will likely hike again in May. After that, central bankers *may* entertain a pause. However, given the inflation backdrop, the ~100 bps of rate *cuts* implied by the bond market over the next year seem unlikely.