

Making Sense

March's Consumer Price Index:

Hotter-Than-Expected CPI Tempers Outlook for Rate Cuts

In Brief:

Takeaways from March's consumer price index:

- Headline inflation (year-over-year): **3.5%**
- Core inflation (year-over-year): **3.8%**

What does it mean for you?

- Inflation remains stubbornly elevated.
- Today's report led markets to expect fewer rate cuts this year beginning at a later date.

What to watch:

- Commentary from the Fed about the interest rate outlook during its next meeting on May 1st.
- Incoming data over the next week on corporate earnings and consumer spending.
- Stay informed and submit your questions at [FirstCitizens.com/Wealth](https://www.firstcitizens.com/wealth).

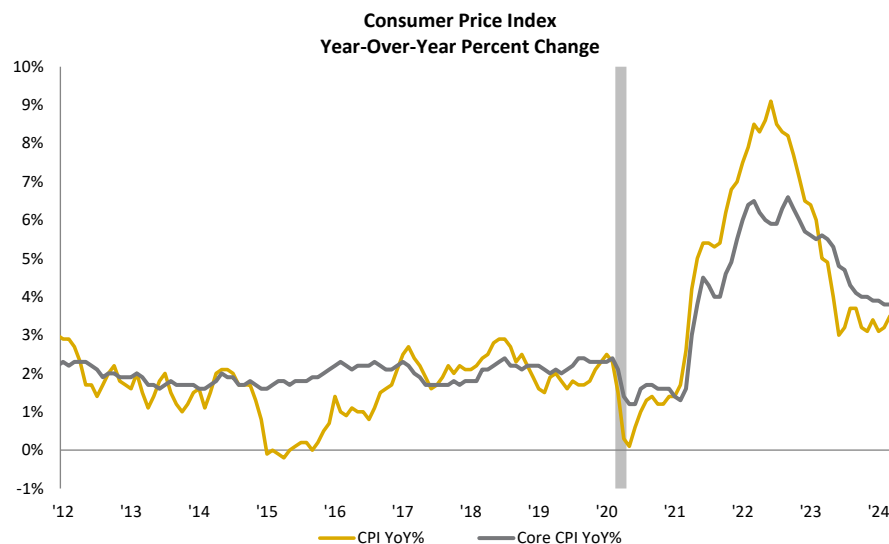


Today's CPI inflation report was hotter than expected for the third consecutive month. The firmer data for March moves year-over-year inflation back up to 3.5% and lessens the chances the Fed will be cutting interest rates in the next couple months. Coming on the heels of a robust jobs report, today's inflation data are yet another sign that the economy is more resilient and inflation more durable than expected at the start of the year.

The Federal Reserve has said it intends to cut interest rates this year but also clearly stated it needs to see inflation reliably moving closer to its target of 2%. Instead, inflation has shown little sign of cooperating in recent months, and markets have reacted accordingly. **Since the start of the year, markets have come to expect significantly fewer interest-rate cuts beginning at a progressively later date. After today's report, markets have pared back their view even further.** Treasury yields have rebounded to November levels, and the number of rate cuts markets expect in 2024 has fallen from six in November to just two as of this writing.ⁱ

What's driving inflation? The story is still that inflation for goods prices remains very low—in some cases, like for cars and household items, prices are outright falling. But, inflation for services remains far too high. Housing is the biggest driver of high services inflation, which according to the CPI is up over 5% compared to a year ago. Although housing inflation has improved over the last several months, other categories like car insurance and medical care continue to boost consumer inflation.

Figure 1: Consumer Price Index Inflation Remains Stubbornly High



Source: BLS, Bloomberg

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ⁱ Bloomberg