

THE ECONOMY & STRATEGIES

Stephens Economic Quick Take

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With a soft landing coming ever more into view, the Federal Reserve has a decision to make. What should interest rate policy be in 2024? Recent data indicates that, for at least the next three meetings, the Fed should take no monetary action.

This is the time to assess the pace of inflation and consider how signals by the FOMC might influence the economic landscape – including whether a bit more labor market weakness will take pressure off service prices.

Nowhere would that be more important than the service sector which represents more than 77% of GDP across housing, healthcare, insurance, travel, entertainment, and many other costs that affect Americans of every income level.[i] This consists of services from gym memberships to streaming platforms to management consulting firms.

During the 12 months through December services, excluding energy, increased inflation by 5.3%, according to the Consumer Price Index.[ii] This is lower than the 7.0% pace of inflation for services excluding energy that occurred during 2022, but still uncomfortably high for many households.[iii]

It's also somewhat troubling that the CPI for all items increased 0.3% in December after rising 0.1% in November.

The next FOMC meeting will be held Jan. 30-31. According to the CME FedWatch Tool, market participants overwhelmingly expect the Fed to hold interest rates steady in the 5.25%-5.50% range.[iv]

A much smaller majority of participants expects rates to remain unmoved in March as well. Then the tide shifts, and the vast majority of participants expects rate cuts by May. Yet that may depend on whether inflation continues to surprise to the upside.

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<https://www.investopedia.com/terms/s/services-sector-etf.asp>

<https://www.bls.gov/news.release/cpi.nr0.htm>

https://www.bls.gov/news.release/archives/cpi_01122023.pdf

<https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html>

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