**AGRON NICAJ**
*US Economist*

Economic Research Office

T: +1 (646) 357 6180
E: anicaj@us.mufg.jp

**MUFG Bank, Ltd.**
A member of MUFG, a global financial group

# March CPI tempers rate cut expectations

**April 10, 2024**

- March's CPI print complicates expectations of a rate cut in the first half of 2024. Core goods are in deflation territory, but shelter inflation remains elevated and core services excluding shelter accelerated in March.
- Under the current trajectory, a June rate cut would likely be premature. Indeed, there are weaknesses in sectors of the US economy, including in the labor market, in the commercial real estate sector, and in personal income growth, but headline growth is strong, and a pre-emptive rate cut is only justifiable if inflation is "sustainably" at the 2% target. That target is unlikely to be reached by June.

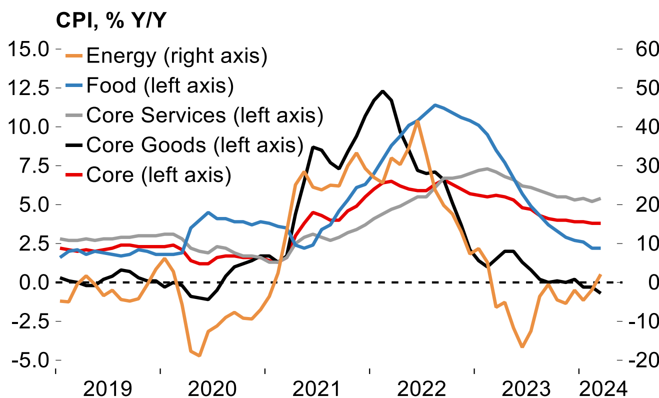
### Inflation remains stubbornly high in Q1 2024

Most inflation drivers have been suggesting that price growth should continuously ease toward the Fed's 2% target. But despite this, annual growth in core CPI remains elevated at 3.8% (Chart 1).

Shortages still characterize the overall housing market, which can help explain why shelter inflation remains elevated (0.4% m/m and 5.7% y/y). But monthly growth in core CPI excluding shelter has been on an upward trend since the middle of 2023 (Chart 2). Core goods inflation is least troublesome, with annual price growth remaining in negative territory since January 2024 (Chart 1). The latest acceleration in energy prices should only be slightly concerning, with supressed supply driving most of the growth rather than accelerating global demand. Core services less shelter is most concerning, and it has been the major driver of reaccelerating prices despite slowing wage growth.

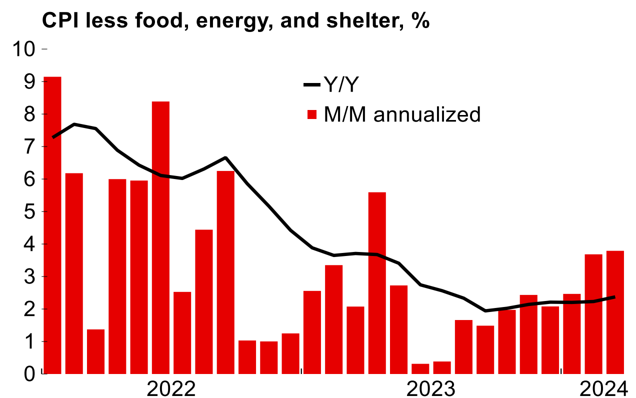
Growth in some spending categories can be considered a "bump in the road," but more confidence will be needed for the Fed to cut rates in June. The economy is on pace to show strong growth in Q1 (Chart 3), supported by elevated consumer spending growth, and headline jobs growth remains strong.

**Chart 1:** Core inflation remains elevated above 2%, mostly driven by core services




Source: BLS, MUFG Bank Economic Research Office

**Chart 2:** Core inflation less shelter has been accelerating since the middle of 2023



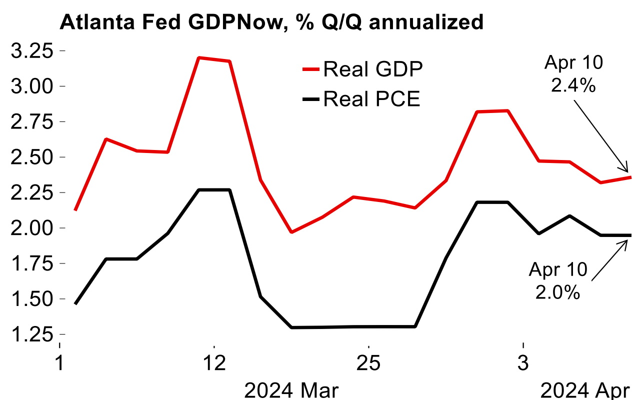

Source: BLS, MUFG Bank Economic Research Office



MUFG

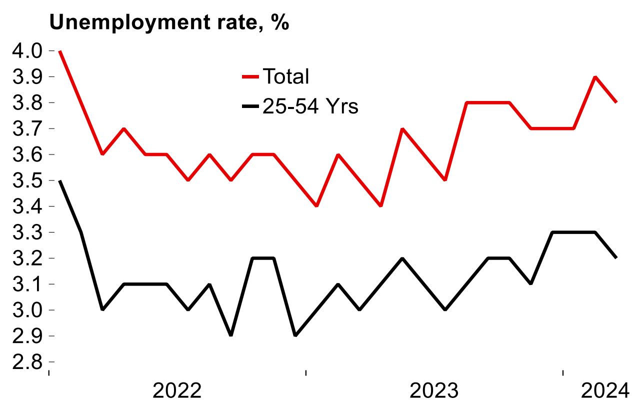
While there are weaknesses present in the economy, the Fed's primary goal is for inflation to "sustainably" reach 2%, which likely means several months at or very near target. And as of now, that seems unlikely to happen by June. For the Fed to cut rates before inflation reaches target, it is likely that the unemployment rate would need to rise above 4% for the Fed to justifiably intervene and adhere to their dual mandate of maximum employment and stable prices. And again, that seems unlikely to happen by June given that the unemployment rate has been hovering between 3.7-3.9%, and even lower for prime-age workers (Chart 4).

**Chart 3:** The latest forecast shows real GDP growing by 2.4% annualized in Q1 2024




Source: Atlanta Fed, MUFG Bank Economic Research Office

**Chart 4:** The unemployment rate has hovered between 3.7-3.9% since August 2023




Source: BLS, MUFG Bank Economic Research Office

**Analyst Certification**

The views expressed in this report solely reflect the personal views of Agron Nicaj, the primary analyst responsible for this report, about the subject securities or issuers referred to herein, and such views may not necessarily reflect the thoughts and opinions of MUFG Bank, Ltd. and its affiliates or management team. No part of such analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed herein.


**Disclaimers**

The information and views contained herein are not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject MUFG Bank, Ltd. (collectively with its various offices and affiliates, "MUFG Bank") to any registration requirement within such jurisdiction or country. The information and views contained herein are provided for general informational purposes only, are subject to change, and are not intended to be, nor should be used, or considered, as an offer, or the solicitation of an offer, to sell or to buy or to subscribe to or for securities or any other financial instruments, and do not constitute specific investment, legal, tax or other advice or recommendations. The information contained herein reflects the thoughts and opinions of the noted authors only, and such information does not necessarily reflect the thoughts and opinions of MUFG or its management team. Neither this nor any other communication prepared by MUFG Bank should be construed as investment advice, a recommendation to enter into a particular transaction or pursue a particular strategy, or any statement as to the likelihood that a particular transaction or strategy will be effective and it does not take into account the specific investment objectives, financial situation, or the particular needs of any specific person who may receive this information. Any information relating to performance contained herein is illustrative and no assurance is given that any indicative returns, performance or results, whether historical or hypothetical, will be achieved. Before entering into any particular transaction, you should consult an independent financial, legal, accounting, tax, or other advisor as may be appropriate under the circumstances. In any event, any decision to enter into a transaction will be yours alone, not based on information prepared or provided by MUFG Bank. MUFG Bank hereby disclaims any responsibility to you concerning the characterization or identification of terms, conditions, and legal or accounting, or other issues or risks that may arise in connection with any particular transaction or business strategy. While MUFG Bank believes that any relevant factual statements contained herein, and any assumptions on which such statements are based, are in each case accurate, neither the authors nor MUFG have independently verified its accuracy, and such information may be incomplete or condensed. The information is provided "AS IS". The authors and MUFG do not warrant the accuracy of the materials provided herein, either expressly or implied, for any particular purpose and expressly disclaims any warranties of merchantability or fitness for a particular purpose. The authors and MUFG cannot and do not guarantee the accuracy, validity, timeliness or completeness of any information or data made available to you for any particular purpose. MUFG Bank may have issued, and may in the future issue, other reports that are inconsistent with or that reach conclusions different from the information and views contained herein. Such other reports, if any, reflect the different assumptions, views and/or analytical methods of the analysts who prepared them, and MUFG Bank is under no obligation to ensure that such other reports are brought to your attention.

© 2024, MUFG Bank, Ltd. All Rights Reserved.


**About MUFG and MUFG Americas**

Mitsubishi UFJ Financial Group, Inc. (MUFG) is one of the world's leading financial groups. Headquartered in Tokyo and with over 360 years of history, MUFG has a global network with approximately 2,000 locations in more than 40 countries. MUFG has nearly 120,000 employees and offers services including commercial banking, trust banking, securities, credit cards, consumer finance, asset management, and leasing. The Group aims to "be the world's most trusted financial group" through close collaboration among our operating companies and flexibly respond to all the financial needs of our customers, serving society, and fostering shared and sustainable growth for a better world. MUFG's shares trade on the Tokyo, Nagoya, and New York stock exchanges.

MUFG's Americas operations, including its offices in the U.S., Latin America, and Canada, are primarily organized under MUFG Bank, Ltd. and subsidiaries, and are focused on Global Corporate and Investment Banking, Japanese Corporate Banking, and Global Markets. MUFG is one of the largest foreign banking organizations in the Americas. For locations, banking capabilities and services, career opportunities, and more, visit www.mufgamericas.com.