Macro Economic Overview – April 2024

A stronger then anticipated jobs report reduced chances of a Fed rate cut in June as projected by analysts. Strong labor dynamics tend to foster underlying inflation for longer periods of time, thus influencing the Fed's decision on rate decreases. Yields on shorter term U.S. Treasury bonds rose in March as expectations for a spring or summer Fed rate cut dissipated.

The Federal Reserve signaled that it will likely be appropriate to lower rates at some point this year, with some Fed officials expecting at least three rate reductions in 2024. Markets were anticipating the first rate cut to have occurred in March, yet did not materialize due to the Fed's concern surrounding continued inflationary pressures.

Inflation angst affected markets in March as inflation remained a concern, hindering the Fed from executing a rate cut which had been expected earlier in the year. Over the past year, prices rose the most for transportation services, eating out, and housing. Stubbornly high prices on certain goods and services have stalled any immediate efforts by the Fed to commence its rate reduction strategy.

A number of central banks worldwide are expected to cut rates starting this summer, before the Fed embarks on its rate reduction plans. Slower economic growth and lessening inflationary pressures are prompting lower rates throughout Europe in order to sustain economic momentum. The European Central Bank, the central banks of England, Canada, Australia, New Zealand, and Switzerland are all anticipated to begin lowering rates this summer and through the end of the year.

The Baltimore bridge collapse highlights the fragility of the nation's infrastructure and the need for proactive contingency planning and maintaining diversified routing options. A critical component of the nation's shipping transit, the Baltimore Port is the largest U.S. port by volume in handling farm, construction machinery, and agricultural products. It is also the busiest U.S. port for automobile shipments, moving more than 750,000 vehicles in 2023, according to data from the Maryland Port Administration.

Florida passed a law this past month that prohibits minors under the age of 14 from having social-media accounts, regardless of parental consent. The legislation is aimed at curbing social-media access for minors and requires social-media platforms to cancel accounts and delete all content on the request of parents and minors. The law is set to become effective and enforceable on January 1, 2025. Should other states adopt similar restrictions, the impact on social-media platforms may pose a challenge.

The unemployment rate dropped to 3.8% in March, down from 3.9% in February, signaling a slightly stronger job market than expected by analysts. Concurrently, wage growth slowed in March to an annual growth rate of 4.1%, down from 5.9% two years ago. A slow down in wage growth can be good for companies looking to mitigate labor costs yet derogatory for employees and their spending power.

Three key economic indicators rose in the first quarter, gold, oil, and the U.S. dollar. Gold hit an all time high of over $2,300 per ounce, while oil (West Texas Intermediate) reached over $90 per barrel, both indicative of continuing inflationary pressures and global geopolitical tensions. The U.S. dollar also rose driven by a stable U.S. economy and by the demand for a secure currency influenced by tensions in Europe and the Middle East.

Shrinkflation, a term being used more frequently in the press, is when companies sell a smaller or lesser amount of a product, but for the same price. The dynamic has become common from food products to cars, where consumers are getting less yet still spending the same. Higher production costs, including raw materials and labor, have forced companies to either raise prices or shrink product portions in order to maintain profitable margins.

Sources: Maryland Port Administration, ECB, Federal Reserve, Labor Dept., EuroStat, U.S. Treasury