

# WEEKLY ECONOMIC COMMENTARY

January 17, 2025



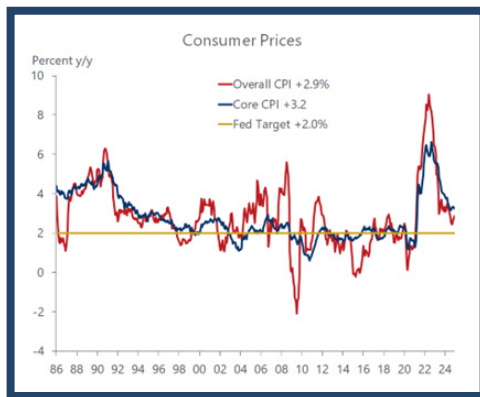
**Millennium**  
CORPORATE CREDIT UNION

**Last week the economy delivered good news for Main Street (strong job growth), but bad news for Wall Street (higher interest rates).** This week, the news cycle flipped the script. Wall Street rejoiced over an inflation report whose core component came in mildly softer than expected in December. But the same report was viewed less favorably on Main Street, particularly in poorer neighborhoods, as the cost of necessities, notably gasoline and eggs that account for a big chunk of lower-income budgets, drove a pick-up in headline inflation. For the first time since April, overall prices rose faster than worker paychecks, cutting real hourly earnings from \$11.25 to \$11.23 last month.

The flip-flop in the news cycle also upended policy expectations. Last week's stronger than expected jobs report put another rate cut on the backburner. Instead of the two priced into the market this year – and signaled by the Fed at its December meeting – traders immediately dialed back expectations to one, with some expecting officials to stay on the sideline for the rest of the year. However, following the two subdued inflation reports this week, including both the consumer and producer price indexes, two cuts are back on the table. No one expects the Fed to do anything at the next meeting on January 28-29, but the odds of a March rate cut have increased, particularly if the slowing trend in core inflation stays on track.

We will get more confirmation – or opposition – to further easing next week in the personal income and spending report that features the Fed's preferred inflation gauge, the personal consumption deflator. Based on the source data contained in the CPI and PPI reports released this week, the PCE should come in on the low side, edging up by 0.2 percent. That would give the Fed comfort the disinflationary trend is alive and well, although progress towards the 2 percent inflation target remains painfully slow. What's more, headline inflation may still come under pressure from rising oil and some grocery prices, including eggs.

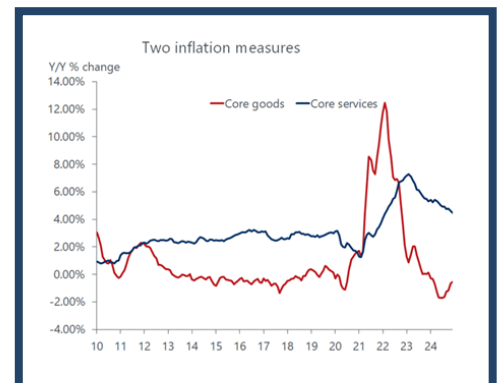
But those pressures are stoked by external forces, such as geopolitical events and the bird flu, which monetary policy is not equipped to control.



That said, the Fed should be encouraged by the latest readings on consumer prices for several reasons. The most obvious is that the 0.2 percent increase in the core CPI was the smallest since June and lowered the annual increase to 3.2 percent from 3.3 percent in November. That tick down was unexpected and primarily responsible for the jolt of optimism in the markets, particularly in the bond sector, where the bellwether 10-year Treasury yield staged an unusually sharp one-day drop of 15 basis points. That positive sentiment lingered through the end of the week, as the yield closed out on Friday at

around 4.60 percent, well below the nearby peak of 4.80 percent hit just before the CPI release on Tuesday. Traders portrayed the bullish turn of events as a relief rally, noting that the CPI report defused fears that the inflation embers were rekindling.

While avoiding the worse-case scenario was a welcome relief, the Fed can draw comfort from more substantive trends in the CPI report. For one, the slower pace of core inflation is coming from services, which has more than offset the firming in goods prices in recent months. Service prices are still running hotter than they were prior to the pandemic, but the ongoing retreat confirms that wages – the major expense item of service providers – are not a source of inflation despite a still relatively tight job market. Indeed, the narrower measure of core inflation that is closely linked to labor costs – the super core gauge that excludes housing costs – also notched a

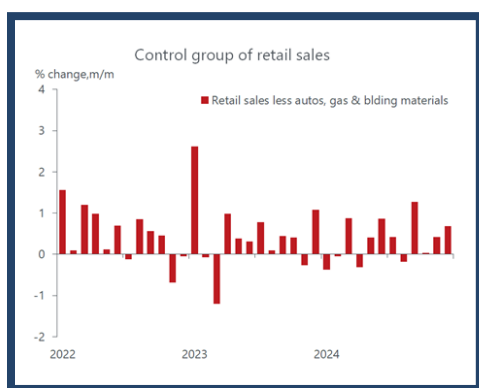


slim 0.2 percent increase in December and is running at an annual rate of 3.5 percent over the past three months. The other sticky component that has long kept inflation elevated, housing costs, is also showing signs of easing. Shelter prices, including owner-occupied and tenant rents, increased 4.6 percent from a year ago in December, the slowest annual advance since January 2022.

While cooling inflation does keep a Fed rate cut on the radar, it is hard to argue that one should be imminent. Unlike the period leading up to the first rate cut of the easing cycle last September, there is no sense of urgency for the Fed to prop up the economy or arrest a deteriorating job market. At most, the labor market has been brought into better balance, with job growth matching the increase in the labor force. But there is no immediate threat of widespread layoffs that could drive up the unemployment rate and undercut confidence, leading to an abrupt spending cutback by households. Meanwhile, the likely decision of the Fed to keep rates at their elevated levels for a while longer does not appear to be having much of a damaging effect on the economy.

If anything, resilience continued to be the hallmark of the economy's performance as 2024 drew to a close. That's the clear message from this week's batch of data not related to inflation. Industrial production staged a much stronger increase than expected in December, even allowing for the expected post-strike rebound in airplane production from Boeing. Likewise, despite the spike in mortgage rates back above 7 percent in the latest week, homebuilding activity roared ahead, as housing starts surged by almost 16 percent in December, following an upward revision to November's tally. The December surge was likely an outlier, reflecting quirky seasonal adjustment factors, and conditions for sustained strength in coming months are not favorable. Residential construction is not expected to contribute to growth in the first half of the year. High mortgage rates and prices will put a crimp on the demand for homes and tighter immigration policies will restrict the construction workforce, putting a crimp on supply.

But the pillar of strength underscoring the economy's resilience continues to reside with consumers, the economy's main growth driver. Consumer spending shows no sign of quitting, as it ended the year on a strong footing. Retail sales rose a solid 0.4 percent in December, following an upwardly revised 0.8 percent gain in November. The stronger than expected increase reflected in part a jump in gasoline prices that pumped up sales at service stations as well as a sizeable replacement demand for autos that were destroyed by recent hurricanes. Even so, the overall gain was broadly distributed among major retail categories, with



a big exception being a setback in sales at restaurants and bars. Since that is the one category in the retail report that falls in the service sector, it could pose a drag on total consumption when the broader report on income and spending is released next week. But the goods side of that report looks to be exceptionally strong, as the source data for goods purchases in the retail report, the so-called control group of sales, notched a sturdy 0.7 percent increase last month.

Simply put, the economy is riding a good deal of momentum heading into the new year. Some of the burst of activity as the curtain fell on 2024 may be a post-election boost linked to the pro-growth agenda of the incoming administration. But while elections matter, euphoria has a limited life-span that could well fade as the potential downside from higher tariffs and the prospect of massive deportations becomes a reality.

## KEY FINANCIAL INDICATORS

INTEREST RATES	January 17	Week Ago	Month Ago	Year Ago
3-month Treasury bill	4.31%	4.32%	4.33%	5.38%
6-month Treasury bill	4.31	4.30	4.30	5.34
2-year Treasury note	4.29	4.39	4.33	4.74
5-year Treasury note	4.44	4.58	4.39	4.33
10-year Treasury note	4.63	4.77	4.53	4.32
30-year Treasury bond	4.86	4.95	4.72	4.43
30-year fixed mortgage rate	7.04	6.93	6.72	6.74
15-year fixed mortgage rate	6.27	6.14	5.92	6.16
<b>STOCK MARKET</b>				
Dow Jones Industrial Index	43487.00	41938.50	42840.30	38714.77
S&P 500	5996.70	5827.00	5930.85	5117.09
NASDAQ	19630.20	19161.63	19572.60	15973.17
<b>COMMODITIES</b>				
Gold (\$ per troy ounce)	2740.00	2716.10	2640.80	2159.40
Oil (\$ per barrel) - Crude Futures (WTI)	78.00	76.56	69.47	81.01

## KEY ECONOMIC INDICATORS

	Latest Month/Quarter	Previous Month/Quarter	Two-Months/ Quarters Ago	Average-Past 6 Months or Quarters
Consumer Price Index (December) - % change	0.4	0.3	0.2	0.3
Core CPI (December) - % change	0.2	0.3	0.3	0.3
Producer Price Index (December) - % change	0.2	0.2	0.4	0.3
Retail Sales (December) - % change	0.3	0.2	0.2	0.4
Housing Starts (December) - 000s	1499	1294	1344	1356
Industrial Production (December) - % change	0.9	0.2	-0.2	0.0

Millennium Corporate Credit Union  
8615 West Frazier Street  
Wichita, KS 67212