

MAY 31, 2022



Paige Wilhelm

*Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling*

Looking forward to summer

It's going to be an interesting summer. With higher energy and food costs, fewer Americans might take vacations, but it's not clear that they will stop spending. The Bureau of Economic Analysis reported last week that consumer spending grew in April, despite the broad rise in costs.

Also released last week, the government's latest assessment of inflation, Personal Consumption Expenditures (PCE), showed it remains hot. The index rose 6.3% in April, still near a 40-year high, though slightly less than March's 6.6%. Core PCE grew 4.9% in April versus 5.2% in March, but the monthly change of 0.3% matches that of February and March.

The big question is how quickly the economy will cool off in response to the Federal Reserve tightening? The labor market already appears to be doing so, as are other important indicators such as the housing market. As of now the sample size is too small—we've only had 75 basis points of hikes in this cycle. Much more should become clear if the Fed hikes the federal funds target range by 1% over the summer, in two 50 basis point increments in June and July, as is expected.