Retirement News Highlights

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Inflation eases again in March, but remains at 5 percent

To get consumer prices back to normal, the Federal Reserve is still working to slow the economy down

By Rachel Siegel
The Washington Post
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Inflation ticked down yet again last month, but prices continued to rise — especially housing costs — at a faster than normal pace.

New data from the Bureau of Labor Statistics released Wednesday showed that prices rose 5 percent in the year ending in March, the smallest 12-month increase since May 2021. That's down from the 6 percent rate notched in February and well below last summer's peak of 9.1 percent. Compared to February prices, March prices rose 0.1 percent.

While price increases remain too high to be comfortable for most American consumers and businesses, the overall picture suggested the Federal Reserve might soon be ready to pause its aggressive campaign to raise interest rates to slow the economy. The recent shock to the banking sector, though, is still clouding the central bank's next move.

Housing costs were by far the largest contributor to the monthly price increase in March, more than offsetting a 3.5 percent drop in the energy index. Rents rose 0.5 percent in March, though that was a slower pace than the previous month.

Car insurance (up 1.2 percent), airfares (4 percent), household furnishings (0.4 percent) and new vehicles (0.4 percent) all saw increases in March.

Energy costs are down significantly from a year ago — which was right after Russia invaded Ukraine and upended global energy markets. That helped the overall inflation number tick down a full percentage point.

But a narrower measure that strips out volatile categories like food and energy broke a monthslong downward streak and came in a bit hot, rising 5.6 percent over the previous year, and 0.4 percent over

February. That’s in large part because shelter costs get even more weight in what’s known as “core inflation,” which is intended to help economists and policymakers see through choppy data.

Yet there were signs of encouragement in costs for medical care and used cars and trucks, which fell 0.3 and 0.9 percent over the month, respectively. Compared to last year, used car prices are down 11 percent.

Overall, the report gave the markets and Fed watchers confidence that the central bank’s aggressive rate hike campaign could be nearing its end.

“Markets will likely react favorably to this report as investors gain more confidence that the next Fed meeting may be the last meeting when the Committee raises the fed funds target rate,” Jeffrey J. Roach, chief economist at LPL Financial, wrote in an analyst note.

Indeed, investors breathed a sigh of relief. The Dow Jones industrial average jumped 159 points, or 0.47 percent at the open. The S&P 500 popped 0.49 percent, and Nasdaq composite 0.64 percent.

Inflation is trending in the right direction, and March marked the ninth straight month of easing after last year’s spike. But consumer prices remain well above normal levels, and a hodgepodge of data makes it difficult to gauge whether the economy is slowing enough. The labor market is still churning, for example, but at a slower pace. Americans pulled back on spending in February, but consumers spent more heavily in January than they had in December. Average gas prices have fallen since surging past $5 a gallon last year, but they could be on the upswing again after Saudi Arabia and other leading oil producers said they would slash output by more than 1 million barrels a day starting in May.

“There’s great news relative to a year ago,” said Diane Swonk, chief economist at KPMG. “But it’s not as if prices are cheap.”

Black unemployment rate hits record low 5 percent

To get the economy back to normal, the Federal Reserve is raising interest rates, hoping it can get borrowing costs high enough to cool demand without forcing a recession. The central bank has raised rates nine times since March 2022, and it’s probably on track for one more hike in May before hitting pause and letting its work filter through the economy. Economists expect that the Fed’s policy rate, known as the federal funds rate, will ultimately hover around 5.25 percent and stay there through 2023. That rate is between 4.75 and 5 percent now.

But policymakers’ careful planning has been repeatedly thwarted by shocks beyond their control, from supply chain issues to Russia’s war in Ukraine. Most recently, the failure of two banks triggered panic throughout the banking system and caused the Fed and other regulators to launch an emergency intervention to stave off broader contagion.

That raised new questions about the ways higher borrowing costs can fuel instability in the financial system, and whether banks are adequately preparing themselves for an environment where rates stay higher for longer.

Banking failures put Fed under yet another harsh political spotlight

Any repercussions from last month’s two-week banking episode weren’t expected to show up in the March inflation report. But Fed officials do believe the bank failures will eventually slow the economy down by tightening credit conditions in ways that mimic interest rate hikes — as banks become more risk-averse, they'll issue fewer loans.

"You can think of it as being the equivalent of a rate hike or perhaps more than that," Federal Reserve Chair Jerome H. Powell said last month. "Of course, it's not possible to make that assessment today with any precision whatsoever."

Much depends on what happens in the rest of the economy. The Fed has recently focused its attention on inflation coming from the services sector, such as leisure, hospitality and health care. The concern there is that labor shortages are putting pressure on wages, as hospitals are desperate to hire nurses and as hotels are stretching to meet spring and summer travel. That drives up prices, in turn, as companies charge more to cover higher labor costs.

But the Fed has not seen enough relief in other parts of the economy, either. In the housing market, rising interest rates triggered a huge run-up in mortgage costs, which can cause buyers to bow out of the market or drive prices down. That slowdown hasn't meant much in the rental market, though. Rents on new leases are moderating in some parts of the country. But those gains are still being offset by rising rents for many tenants who are renewing existing contracts.

How the Fed's rate hikes slow the economy — and impact you

Then there's the energy sector, which was roiled by Russia's invasion of Ukraine last year. Gas prices are expected to jump again after the oil-producing bloc known as OPEC Plus announced plans to significantly slash production. The average gallon of gas in the United States cost $3.62 on Wednesday, according to AAA, and some analysts expect that if demand picks up over the summer, drivers could see prices at the pump pass $4 again later this year.

In the auto sector, wholesale used cars prices have risen more than expected this year. That has car experts bracing for a larger rise in retail prices, since dealers who are paying more for cars at auction will pass higher prices onto consumers.

"It seems only a matter of time, likely in the March-to-May [consumer price index] releases, for it to start showing up in the CPI data," Skanda Amarnath, executive director at Employ America, a left-leaning think tank, wrote in a blog post Tuesday. "Adding insult to injury, higher automobile prices also affect service prices the Fed presumes to be more labor market-driven: the price of renting, leasing, repairing, and insuring a car have all shown sensitivity to auto prices."

At New Life Auto Sales, high wholesale prices have "been the story all along," said general manager Horace Bruce. The used car dealer in Charleston, S.C., focuses on models under $20,000, and consistent customer demand has kept business strong. Bruce said that people have learned "not to get too picky" about sticker price and that if they like one of the 50 cars he's got on the lot, they should buy it.

But Bruce said his business comes down to supply and demand. He doesn't see wholesale prices moderating until the chip shortage is fully resolved and sales of new cars pick up, so that those models can trickle down into the pre-owned market.

"If I had a crystal ball, I'd be rich," Bruce said. "But I don't know what the future holds."

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IMF forecasts modest global growth, downside risks

By Hazel Bradford
Pensions & Investments
April 11, 2023

Downside risks to the global economy dominated the International Monetary Fund's latest economic outlook Tuesday as officials there warned of "stickier" inflation, central bank uncertainty and other factors that could make investors nervous.

While the latest IMF forecast said the global economy would grow 2.8% this year and 3% starting in 2024, it also offered a 25% chance that the annual global growth rate would fall below 2% in 2023. A "significant" financial shock that could risk a global recession was given a 15% chance.

Pierre-Olivier Gourinchas, IMF's chief economist, also warned that "the financial sector had become too complacent" despite last year's U.K. gilt crisis that stressed pension funds' liability-driven investing programs there, and recent bank crises in the U.S.

"The U.K. gilt market and recent banking turbulence in United States illustrate that vulnerabilities still exist," Mr. Gourinchas said in a media briefing about the IMF's World Economic Outlook. "Nervous investors often look for the weakest link, as they did with Credit Suisse."

For banks, the biggest concern is interest-rate risk, rather than credit risk, IMF economists said at a related briefing. Rapid interest-rate hikes were the culprit in the recent collapse of Silicon Valley Bank, money managers told Pensions & Investments as that crisis unfolded. In March, the Bank of England warned of an "urgent need" for increased resilience among non-bank financial institutions and activities, including LDI programs and money market funds.

Side effects from several rapid central bank hikes "are becoming apparent, as banking sector vulnerabilities have come into focus and fears of contagion have risen across the broader financial sector, including non-bank financial institutions," said the IMF's Global Financial Stability Report also released Tuesday.

"Stubbornly high inflation and recent financial sector turmoil" erased signs earlier this year that between lower inflation and steady growth, the global economy could achieve a soft landing, the report said.

The latest IMF forecasts "once again make for grim reading in their assessment" of the U.K. and global economies, said Luke Bartholomew, senior economist with abrdn, in an email. While some of the IMF numerical forecasts might prove to be wrong, "the U.K. economy is likely to endure recession-like conditions for much of this year," while the IMF was not pessimistic enough on U.S. growth, with the risk of tightening credit conditions tipping the U.S. economy into recession later this year, and risking "large spillovers to the rest of the world," Mr. Bartholomew said.

"If the IMF is right about this, and we are right about a recession, the debate will move to how much central banks are likely to cut interest rates in the coming years. Investors may find this period of high interest rates was simply a brief interruption of the low-rate world they have been dealing with since the global financial crisis," he said.

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Former Kentucky Pension Chair Killed in Mass Shooting

Kentucky Gov. Andy Beshear called Elliott “one of my closest friends.”

By Peter Ortiz
FUNDfire
April 12, 2023

The former chairman of the Kentucky Retirement Systems’ board of trustees, Thomas Elliott, was among the victims killed Monday during the mass shooting at the Old National Bank in Louisville where he worked, the Lexington Herald Leader reports.

Kentucky Gov. Andy Beshear called Elliott, who had served as vice president of the Louisville bank, “one of my closest friends.” Elliott, 63, was a fundraiser for the Democratic Party for over two decades and was also a friend of Beshear’s father, Steve, a former governor for the state.

Five people were killed and eight injured, ABC News reported Tuesday. The 25-year-old shooting suspect was killed by police.

“Tommy Elliott helped me build my law career,” an upset Andy Beshear said while speaking at a news conference in Louisville Monday. “[He] helped me become governor, gave me advice on being a good dad. He was one of the people I talked to most in the world, and very rarely were we talking about my job. He was an incredible friend.”

The Kentucky Public Pensions Authority said it is "deeply saddened" that Elliot was among the victims of Monday's mass shooting, in a statement. Elliott was appointed to the pension system's board in 2011 by former Gov. Steve Beshear and served for five years. He was elected chairman multiple times during his tenure, according to the statement.

Elliott was replaced as chairman of the Kentucky pension system in 2016 after he became entangled in a political battle with newly elected Governor Matt Bevin. He had been the chairman of the board since April 2014.

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FBI warns against using public phone charging stations

By Rohan Goswami
CNBC
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The FBI is warning consumers about “juice jacking,” where bad actors use public chargers to infect phones and devices with malware.

The law enforcement agency says consumers should avoid using public chargers at malls and airports, and stick to their own USB cables and charging plugs.

The FBI recently warned consumers against using free public charging stations, saying crooks have managed to hijack public chargers that can infect devices with malware, or software that can give hackers access to your phone, tablet or computer.

“Avoid using free charging stations in airports, hotels or shopping centers,” a tweet from the FBI’s Denver field office said. “Bad actors have figured out ways to use public USB ports to introduce malware and monitoring software onto devices. Carry your own charger and USB cord and use an electrical outlet instead.”

The FBI offers similar guidance on its website to avoid public chargers. The bulletin didn’t point to any recent instances of consumer harm from juice jacking. The FBI’s Denver field office said the message was meant as an advisory, and that there was no specific case that prompted it.

The Federal Communications Commission has also warned about “juice jacking,” as the malware loading scheme is known, since 2021.

Consumer devices with compromised USB cables can be hijacked through software that can then siphon off usernames and passwords, the FCC warned at the time. The commission told consumers to avoid those public stations.

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