June 2024 Muni MOment: Municipal Ratios Improve While the Fed Sees Slow Progress on Inflation

Tom Kozlik

Between June 2022 and June 2023, US CPI fell more than 6 percentage points – from 9.1% to 3.0%. In the 9 months since, CPI has bounced around between 3.2% and 3.7%. The dramatic and much-needed fall in inflation came as a great relief to US consumers and policymakers – but it has now given way to a stubborn channel in which inflation remains uncomfortably above the Federal Reserve's 2% target.

The Fed continues to believe that the fed funds rate – the overnight rate that the Fed controls directly – is still restrictive. In other words, the Fed believes that rates are still high enough to exert a slowing effect on the US economy. The question that they are (transparently, to their credit) working through now is: how restrictive is it? How hard is the pressure on the brake pedal of the US economy? As Dallas Fed President Lorie Logan said in late May: "It also may be that policy is just not as restrictive as we think it might have been relative to the level of interest rates before the pandemic." To summarize: the Fed is trying to understand and navigate a puzzlingly strong economy, and traditional thoughts about fed funds policy seem to be less applicable in today's US economy. The delicate balancing act of trying to slow the economy without overdoing it and throwing the US into a recession is a bit like trying to brake in the snow; applying too little pressure and applying too much pressure each create their own problems.

Download the full article

Read more Municipal Commentary