Inflation in the US continues to decline

- The moderation of high US inflation continues. In January, the inflation rate was still 6.4%, but did not match the experts' expectations, which assumed a decline to 6.2%. February's number fell further to 6%, which was now expected by analysts.
- Core inflation was also in line with expert expectations, coming in at 5.5% in February, down 0.1%.
- Against the background of the turbulence in the US banking sector (Silicon Valley Bank) and the resulting higher inhibition threshold for further interest rate hikes by the US Federal Reserve, the eighth consecutive decline in inflation is of course good news. Nevertheless, it should not be forgotten that the target value for inflation is 2% and that there is still a long way to go.

FED raises interest rates by another 0.25%

- Due to the turmoil in the US banking sector, the US monetary authorities had considered pausing further rate hikes.
- However, as expected, they hiked interest rates by a further 0.25% to a range of 4.75%-5.00%.
- The development of the economic data would have permitted a further increase in interest rates, but the strains in the banking sector had a counteracting effect. In the end, however, there was no dissenting vote and a further interest rate hike found broad support.
- At the same time, however, it was made clear that the effects on the banking industry could not yet be weighed up, which means that there could well be further interest rate hikes.
- However, the Fed backed away from its tough stance on fighting inflation and signaled only one more rate hike. On the one hand, the stress in the banking sector would lead to stricter financial conditions, which acts like a kind of interest rate hike, and on the other hand, many see the trigger for this crisis in the US Federal Reserve's aggressive interest rate policy.
- However, it was also noted that no falling interest rates were to be expected this year.

Dot plot projection of the Fed

- Since the members of the committee last projected their expectations for interest rate developments in December, only the one for 2024 has been slightly revised upwards.
- The FED representatives therefore continue to assume an interest rate of 5.1% for the end of 2023. For 2024, they assume fewer interest rate cuts and expect an interest rate of 4.3% by the end of the year (still 4.1% in December).

ECB hikes rates to 3.5%

- The European Central Bank also raised the key interest rate in mid-March. Despite the tremor in the US banking sector, it increased it by 0.50% and lifted it to 3.50%.
- This step was so expected by the experts. The ECB emphasized that the European banking sector is on solid foundations.

- Furthermore, Europeans face higher inflation than Americans and target 2% inflation to ensure price stability.
- It was also made clear that the determination to fight inflation should not be questioned. However, the ECB did not make any forecasts about future interest rate increases and makes these dependent on the development of the underlying data.

Further weakening of euro area inflation, but…

- Inflation in the euro zone fell to 6.9% for the fifth month in a row. However, the experts only expected a decline to 7.1%. The record was 10.6% in October 2022
- This development is mainly due to energy prices. In March, they even fell by 0.9% year-on-year, while in February they were up 13.7%.
- However, core inflation (excluding volatile energy and food prices) has hit a new record high. It rose from 5.6% (February) to 5.7% in March.
- This makes it easy to see that not only headline inflation, but also the core rate should always be monitored, since in today's situation too positive a development could be seen too quickly.

Growth outlook for 2023

- At the beginning of the year, economic development proved to be more robust than expected.
- The outlook for 2023 has also brightened in the US, in Europe and especially in China (reopening of the economy).
- Nevertheless, the global economic development trend is pointing downwards. Leading indicators point to an economic slowdown in most major economies.
- The full effect of the restrictive monetary policy will only become apparent with a time lag.