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WEEKLY ECONOMIC REPORT MARCH 17, 2025

Investors endured another volatile, whipsaw week as ongoing trade talks and White House comments about the economy unsettled investors.

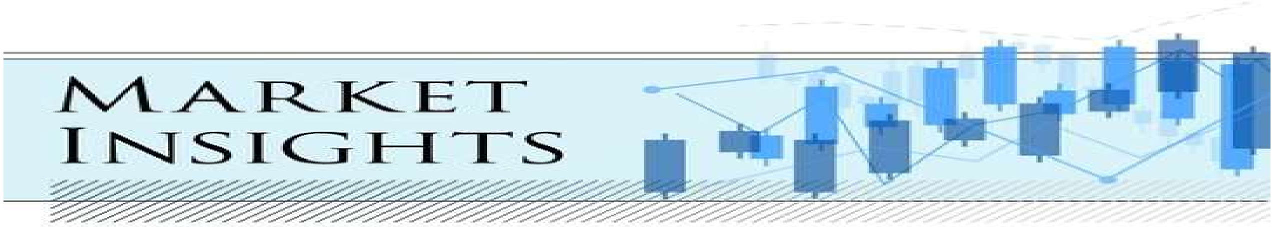
The Standard & Poor's 500 Index declined 2.27 percent, while the Nasdaq Composite Index dropped 2.43 percent. The Dow Jones Industrial Average fell 3.07 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, lost 0.95 percent.[1,2]

Markets Stem Losses

Stocks opened the week lower as investors reacted to the president's weekend comments about the economy. Then, U.S. and Canadian leaders traded additional tariff threats, riling up anxious investors.[3,4]

Stocks rebounded midweek after a cooler-than-expected Consumer Price Index (CPI) report eased growing inflation concerns.[5]
The broad market slide resumed Thursday, but better-than-expected February wholesale inflation data helped buffer losses. The S&P 500 ended Thursday in correction territory—10 percent below its February 19 record close.[6]

Markets pushed higher Friday, clawing back some losses for the week. News of progress in resolving the federal government shutdown soothed investors' nerves.[7]



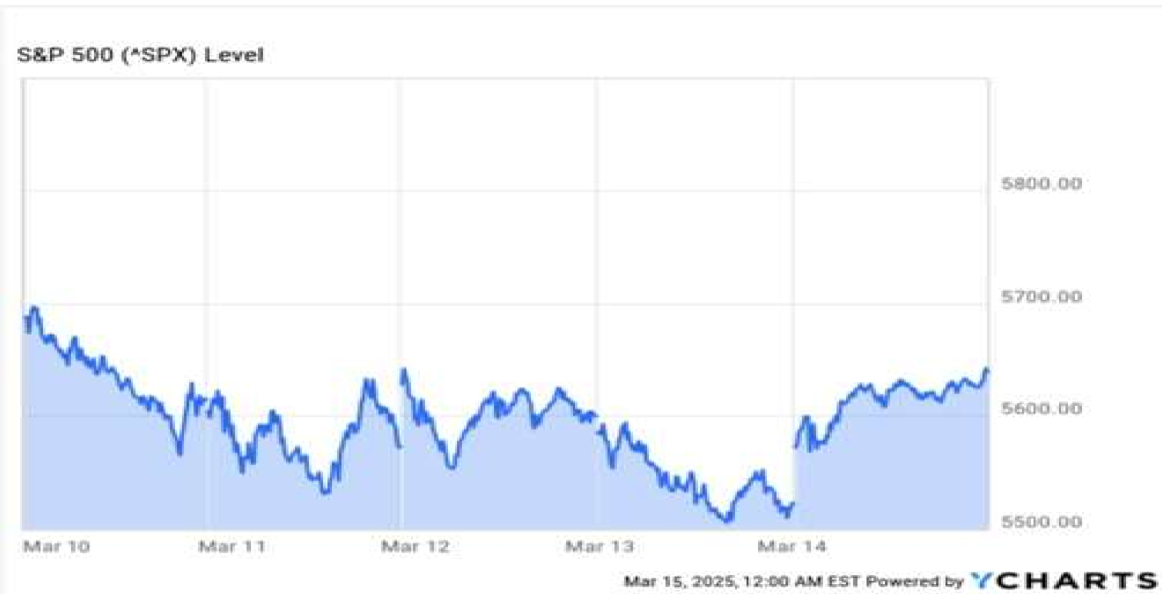
YCHARTS

Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
Dow Jones Industrial Average	-8.47%	-3.69%	6.41%	94.59%
MSCI EAFE	0.66%	8.45%	7.44%	91.77%
Nasdaq Composite	-13.17%	-10.28%	7.71%	128.4%
S&P 500	-9.58%	-5.87%	8.34%	120.1%

S&P 500 Daily Close



10-Year Note Review

Indicator Name Date	Latest Value	1M Ago 3M Ago 1Y Ago	1M Change 3M Change 1Y Change
10 Year Treasury Rate 03/14/25	4.27%	4.52% 4.40% 4.19%	-5.53% ▼ -2.95% ▼ 1.91% ▲

Sunny Side 'Down'

Fewer CPI constituents garner more attention from consumers right now than the price of eggs. Avian bird flu—and the subsequent culling of millions of chickens—was primarily to blame for prices rising 15 percent in January and another 10 percent in February. While recent evidence suggests prices have dropped, the cost of eggs remains a sticky issue—even though prices of many other items have risen just as much, if not more.[8,9]

So why do consumers appear to be overly uneasy?

One theory is that eggs symbolize something more significant. Not only are eggs a critical, inexpensive source of protein and nutrients for millions of consumers, but they are also a core part of many other foods made at home or mass-produced. For that reason, eggs are a mental proxy for how consumers believe the broader economy is doing.[10]

This Week: Key Economic Data

Monday: Retail Sales. Business Inventories. Homebuilder Confidence Index.

Tuesday: Housing Starts and Permits. Import & Export Prices. Industrial Production. Capacity Utilization. Federal Open Market Committee (FOMC) meeting—Day 1.

Wednesday: FOMC meeting—Day 2. Fed Announcement/ Fed Chair Press Conference.

Thursday: Existing Home Sales. Weekly Jobless Claims. Leading Indicators.

Friday: Federal Reserve Official John Williams speaks.

Quote of the Week

"Inflation is never an unavoidable natural disaster; it is always the result of the weakness or ignorance of those in charge of monetary policy."

– Friedrich Hayek

Of Note

At its September 2024 meeting, the Fed's FOMC cut the target federal funds rate by a historically large 50 basis points and then justified this cut on the grounds that "The Committee has gained greater confidence that inflation is moving sustainably toward 2 percent, and judges that the risks to achieving its employment and inflation goals are roughly in balance."

The FOMC again cut the target rate in November and then again in December. Each time, the FOMC's official statement said something to the effect of "[price] inflation is headed to two percent. Specifically, the November statement said "[Price inflation] has made progress toward the Committee's 2 percent objective." The December statement said exactly the same thing.

It remains unclear what motivated the FOMC to slice the target rate so drastically in September. Was it a political ploy to stimulate the economy right before an election? Or was the Fed spooked by weak economic data? We don't know, and the Fed is a secretive organization.

But whatever the Fed actually believes, the committee's claims about "greater confidence" in falling price inflation is now gone. The FOMC announced in January that it would not lower the target rate, and the FOMC also removed from its official statement the line about making progress "toward the Committee's 2 percent objective." That sentence disappeared from the written statement, although Powell, in the press conference, apparently felt the need to remind the audience that "Inflation has moved much closer to our 2 percent longer-run goal…" He nonetheless failed to mention anything about continued progress.

It looks increasingly like all that confidence about "sustainable progress" on price inflation back in September, in the heat of election season, of course, was just one of the Fed's many bogus, politically motivated forecasts.

Even if the Fed truly is motivated by the official data, though, it's clear that the Fed now has good reason to downplay talk of declaring victory on the Fed's two-percent inflation goal.

Recent official data, which generally reflects the best scenario that government bean counters can muster, shows plenty of bad news in this area. According to the Fed's preferred inflation measure, PCE inflation, year-over-year price inflation reached an eight-month high in December, at 2.6 percent. (December is the most recent available number on PCE.) If we look at January's headline CPI inflation, the picture is even worse. Year-over-year CPI inflation hit a nine-month high in January, at 3.0 percent, and month-to-month growth was at an eighteen-month high of 0.5 percent.

Thanks to the Fed's unrestrained embrace of monetary inflation from 2020 to 2022, American consumers are still facing the grim reality of rising prices on basic necessities. In January's CPI report, some of the largest jumps in prices were in food (2.5 percent), energy services (2.5 percent), other services (4.3 percent) and shelter (4.4 percent).

Wholesale prices also suggested that we won't be seeing much relief from price inflation. According to new producer price index numbers, released on Thursday, year-over-year growth in the PPI reached a 24-month high of 3.5 percent. This is bad news for those hoping that the Fed's predictions of falling prices might somehow come true. CNN recently delivered the bad news: "The stronger numbers seen in Thursday's PPI will tend to translate into continued consumer price inflation through the middle of the year."

So much for the Fed's dog-and-pony show of late summer 2024 when Jerome Powell repeatedly assured the public that the economy was in great shape and that price inflation was rapidly disappearing.

So, what should the Fed's FOMC do now? The answer: "nothing." Observers of Fed policy often speak in terms of the Fed "setting" interest rates or "raising" the target rate. In truth, the Fed doesn't set rates, and it doesn't raise interest rates, either. The Fed can allow interest rates to rise by intervening less in debt markets. If the Fed just backs off from its endless manipulations through its open market operations, the Fed won't be buying assets with newly created money and directly driving more price inflation.

After so many years of forcing down interest rates, if the Fed just took a break from its constant meddling, interest rates would naturally rise. That would lead to bankruptcies among zombie companies and other enterprises that can't survive without a constant infusion of new, cheap money. On the other hand, the bubble economy would start to heal, prices would fall, and prospective first-time home buyers might have a chance of actually buying a home. Ordinary people who can't afford hedge fund managers might be able to actually make some money on investments again as interest rates on ordinary investments rise to more normal levels.

This is what the Fed should have been doing in September instead of manufacturing new excuses as to why it needed to cut rates again. Of course, the Fed never just sits back and lets the market function freely, because it is a political institution. It does what the regime asks of it, whether it's for short-term stimulus, or when the federal government asks the Fed to push down interest rates to keep interest payments on the huge federal debt manageable.

With Trump in office, it looks like there's no break in the usual politicians' calls for easy money. Indeed, it only took six weeks in office, and Donald Trump is back to demanding that the central bank force down interest rates. According to Bloomberg on Wednesday: "President Donald Trump called for lower interest rates, seeking to raise pressure on the Federal Reserve as he moves to implement a second-term economic agenda high on tariffs and expanding tax breaks. 'Interest Rates should be lowered, something which would go hand in hand with upcoming Tariffs,' Trump said Wednesday in a post on social media."

Is this a tacit admission that tariffs are a tax and will therefore slow the economy? Is Trump admitting he needs more easy money to keep up the appearance of a growing economy?

Whatever the thinking is, forcing down interest rates even further will not benefit ordinary people. They'll just bring price inflation, malinvestment, and more of the same stagnation that that only looks like growth thanks to runaway government spending and record-breaking deficits.[11]

Footnotes and Sources

1. The Wall Street Journal, March 14, 2025
2. Investing.com, March 14, 2025
3. The Wall Street Journal, March 10, 2025
4. CNBC.com, March 11, 2025
5. CNBC.com, March 12, 2025
6. CNBC.com, March 12, 2025
7. The Wall Street Journal, March 14, 2025
8. MarketWatch.com, March 12, 2025
9. Newsweek, March 11, 2025
10. MarketWatch.com, March 10, 2025
11. zerohedge.com/markets/fed-has-stopped-pretending-price-inflation-going-away

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