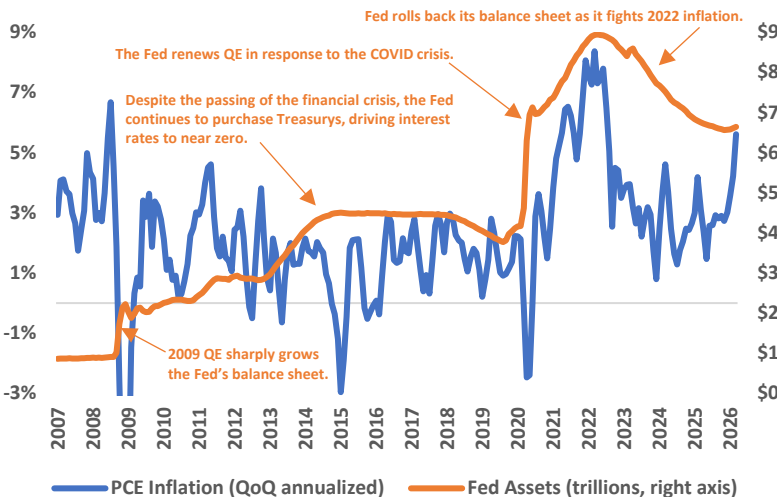


Briefing

- The combination of economic slowdown and quantitative easing contributed to higher inflation following COVID. By March of 2022, the Federal Reserve took its first steps toward cooling the inflation by raising the fed funds rate. Short-term Treasury rates quickly followed (**Figure 1**). It wasn't until late 2024 that short-term rates began to ease.
- Inflation numbers can appear understated because of observation bias. People are angered when prices rises, but not when they fall. The difference in emotions causes price increases to stick in people's memories more than price decreases. Also, inflation calculations weight price changes according to how much we spend. For example, the price of coffee is up 30% since last year. But because coffee constitutes less than 1% of the typical person's spending, coffee prices have little effect on inflation calculations (**Figure 2**).
- The U.S.-Iran war and the closure of the Strait of Hormuz drove up oil prices. Although only a small share of oil consumed in the U.S. moves through the strait, the disruption has still affected U.S. prices through the global market. As buyers scrambled to replace disrupted supplies, they bid up oil prices worldwide. That redirected oil away from lower-priced destinations, including the U.S., putting upward pressure on U.S. oil prices (**Figure 3**).

Chart of the Week



Commentary

Quantitative easing (QE) is a tool the Fed uses to expand liquidity in financial markets. The Fed purchases securities (typically Treasuries), which increases bank reserves. The purchased Treasuries show up as an increase in assets on the Fed's balance sheet.

Fed chair nominee Kevin Warsh served on the Fed's Board of Governors during the 2008 financial crisis and was instrumental in crafting the QE the Fed employed in navigating that crisis (**Chart of the Week**). However, Warsh was a proponent of scaling back QE after the crisis had passed. His disagreement with the Fed's policy of maintaining an elevated balance sheet played a role in his resigning from the Fed in 2011.

In public addresses, Warsh has advocated for the Fed to remain limited in scope and focused on maintaining price stability. If chairman Warsh follows the advice of economist Warsh, we can expect interest rates to remain elevated—possibly even in the face of rising unemployment. If the Q1 surge in inflation shows signs of persisting, we may even see the Fed raise rates. We can also expect higher interest rates to drive up the interest expense on the debt and for that to cause policymakers to become more focused on deficits.

Snapshots

Figure 1. Inflation and Short-Term Interest Rates

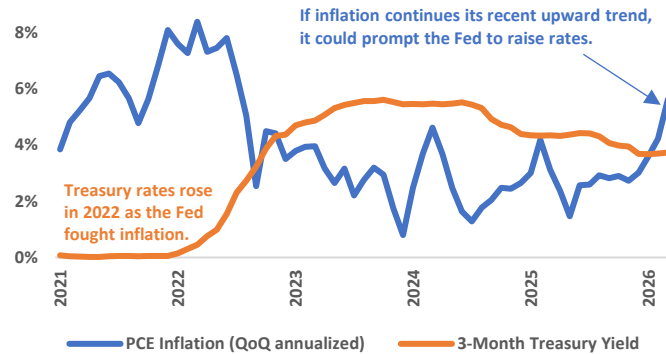


Figure 2. Price Changes Over the Past Year

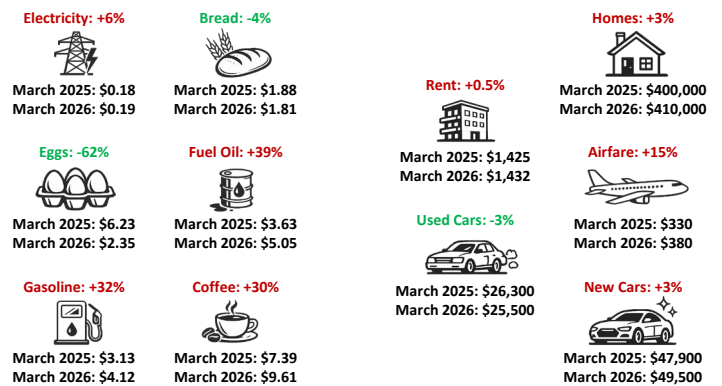
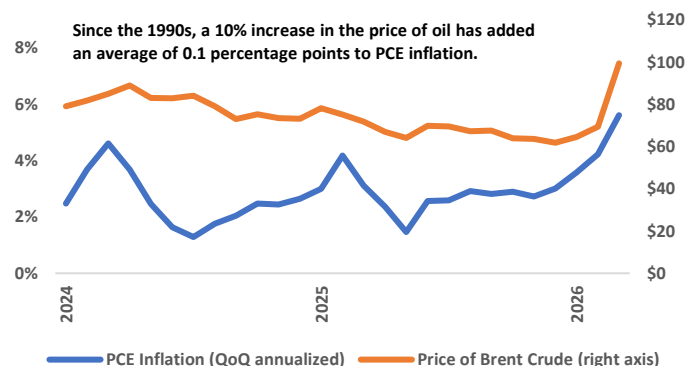
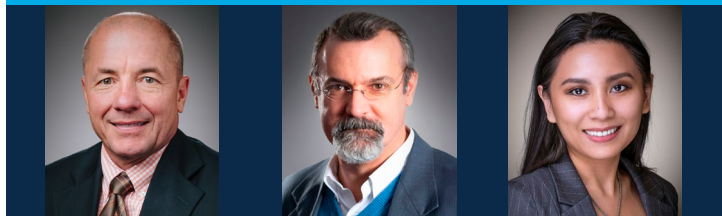


Figure 3. Inflation and the Price of Oil



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Key Indicators

INTEREST RATES ¹	2026				2027	
	Current	Q2	Q3	Q4	Q1	Q2
Fed Funds Target ² (%)	3.75	3.75	3.75	3.75	3.75	3.75
SOFR (%)	3.64	3.52	3.42	3.36	3.32	3.26
2Y UST (%)	3.93	3.63	3.58	3.56	3.53	3.51
5Y UST (%)	4.06	3.83	3.80	3.79	3.79	3.80
10Y UST (%)	4.42	4.28	4.24	4.23	4.22	4.23
30Y UST (%)	5.01	4.86	4.83	4.81	4.79	4.79

ECONOMY	2026				2027	
	Current	Q2	Q3	Q4	Q1	Q2
PCE Inflation (YoY %)	3.5	4.6	2.4	2.5	2.5	2.3
CPI Inflation (YoY %)	3.3	5.6	2.3	2.3	2.4	2.3
Real GDP (QoQ %)	2.0	1.5	1.7	1.9	2.1	2.1
Unemployment (%)	4.3	4.4	4.5	4.5	4.5	4.4
Consumer Spending (QoQ %)	1.6	1.5	1.7	1.9	1.9	2.0
Industrial Production (YoY %)	0.7	1.1	1.2	1.4	1.6	1.7

Equities & Currency

	Current	Year ago	YoY Δ
DJIA	49,377	41,219	19.8%
Nasdaq	25,151	17,844	41.0%
S&P 500	7,238	5,650	28.1%
US Dollar Index	\$1,193.64	\$1,220.77	(2.5%)

Commodities

	Current	Year ago	YoY Δ
Crude Oil (Per Barrel)	\$102.06	\$57.13	79.0%
Natural Gas (Per MMBtu)	\$2.86	\$3.55	(19.5%)
Coal (Per Short Ton)	\$13.39	\$9.85	36.6%
Gold (Per Ounce)	\$4,575.9	\$3,334.50	37.3%
Corn (Per Bushel)	\$4.68	\$4.47	4.9%
Soybean (Per Bushel)	\$12.04	\$10.38	16.0%

Industry

	Current	Year ago	YoY Δ
Natural Gas Storage (Billion Cubic Feet)	2,142	2,026	5.7%
U.S. Daily Power Consumption (MWh)	9,186,724	9,692,172	(5.2%)
World Container Index (Per 40ft)	\$2,216	\$2,091	6.0%

¹ Unless otherwise indicated, forecasts are from the Blue Chip Professional Forecasters.
² Target rate forecast is based on futures market contracts.

Sources: © Oxford Economics, Blue Chip Financial Forecasts, Trading Economics, Moody's Analytics, Statista, Oxford Economics, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, U.S. Energy Information Administration, U.S. Treasury Department, Federal Reserve Bank of Atlanta, Federal Reserve Bank of New York, Federal Reserve Bank of St. Louis, International Monetary Fund, World Bank, University of Michigan, The Conference Board.

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Forecasts

