

U.S. Employment Insight: April 2026

MNI View: Strong Bounce Alleviates Concerns

Apr 3, 2026 - By Tim Cooper

Quick Take: Strong, But Supply Vs Demand Debate To Go On

March's BLS employment report was undoubtedly strong in the main readings, and will have allayed concerns that February's pullback in payrolls portended a renewed leg of weakness in the labor market.

- The 178k headline gains in the Establishment survey was the highest since December 2024, easily beating the 70k MNI dealer median, with private payrolls up 186k vs the 75k expected. And the dip in the unemployment rate to a 9-month low 4.26% (consensus 4.4%, 4.44% prior) in the Household Survey suggested that the headline payroll gains were no fluke.
- But while this was a better-than-expected report, it comes in the context of significant volatility in month-to-month figures, including major revisions to February's reading (-113k vs -92k, offset by a +34k upside revision to January). And the rebound, while impressively broad across sectors, was still heavily driven by healthcare employment and other sectors that appeared impacted by one-off factors in February.
- Stepping back, the 3-month change in payrolls has been a solid if more modest +68k (an 11-month high), with the 6-month average gains rising to 15k from -2k in Feb for the highest since in 6 months. So, an improvement in trends, but not enough to suggest that employment gains are doing anything but trading water. Payrolls have grown by just 0.2% Y/Y.
- Indeed while the unemployment rate drop was suggestive of reduced labor market slack, it was flattered by a decline in the size in the labor force as well as falls in the participation and employment-to-population ratios, as well as the weakest response rate in survey history.
- Additionally, growth in average hourly wages continued to decline to fresh post-2021 lows on a Y/Y basis and are well off post-pandemic highs.
- Taken together, the FOMC will probably be relieved that it has another month to assess the fallout from the Middle East war without being unduly concerned about an imminent collapse in the labor market (for which evidence of near-term war impact is so far scant).
- The Committee will continue to see a low-hiring, low-firing labor market that is indicative of being roughly in balance, with the underlying data meaning the debate is set to continue over whether it is weakness in labor supply or demand that has the upper hand.
- Indicative of this reinforced wait-and-see stance, market-implied Fed rate cuts were pared in the wake of the report, with Fed funds futures currently seeing just 2bp of cuts in 2026 as we head into the holiday weekend, vs around 6bp pre-report.

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Payrolls Summary Statistics For March 2026

	Actual	Cons.	Surprise on mth	2-mth Rev	Feb	Jan	Net Surprise
Monthly growth (000s)							
NFP	178	65	113	-7	-41	34	106
Private	186	78	108	-9	-43	34	99

	Actual	Cons.	Prior mth	Cycle low	2019 av	
U/E rate (%)	4.26	4.4	4.44	3.45	Apr'23	3.67

	M/M Growth		Y/Y Growth	
	Actual	Cons.	Actual	Cons.
AHE (%)	0.24	0.3	3.52	3.7

Source: Bloomberg Finance L.P., BLS, MNI

Biggest Payrolls Gains Since 2024, Unemployment Rate Dips

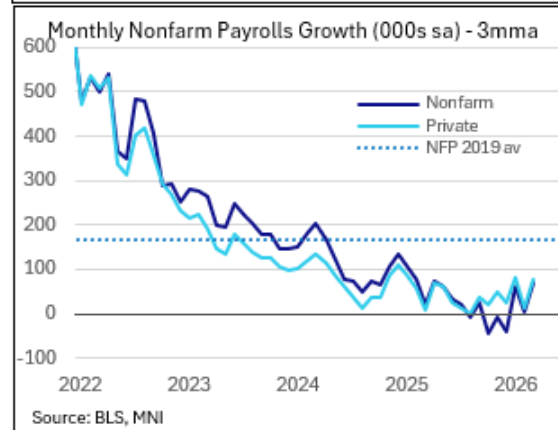
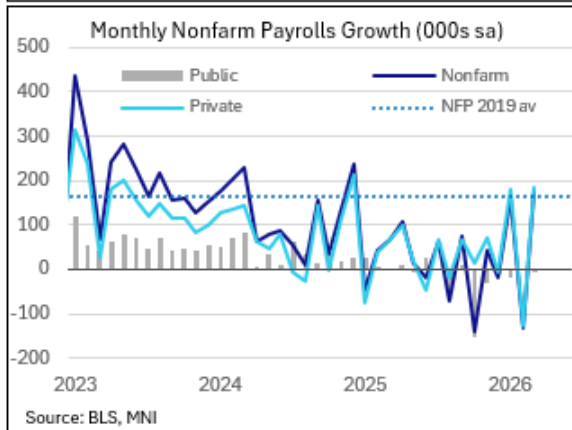
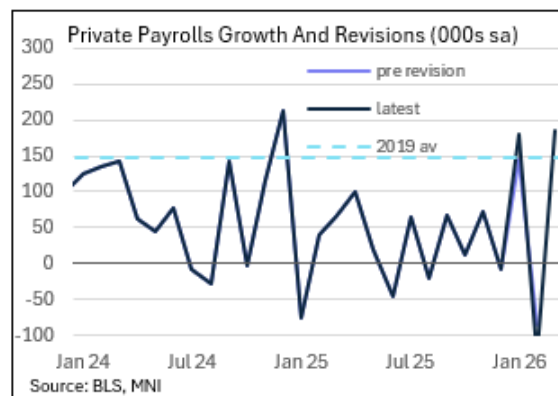
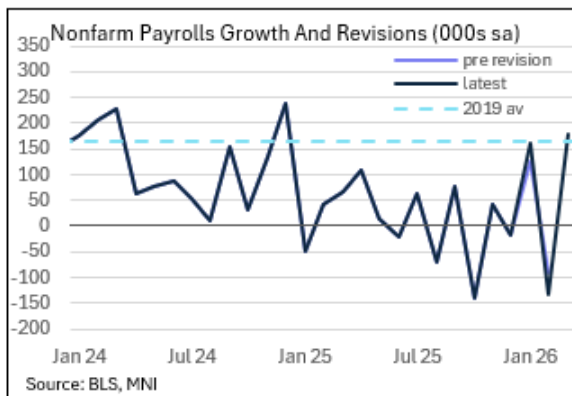
A very large bounce in healthcare payrolls is the standout for that headline number, with the 178k NFP rise (65k consensus, -133k prior rev from -92k) marking the highest since December 2024. Healthcare payrolls had been expected to jump back sharply due in large part to a return of workers from strike, but the rebound (+76k) is larger than the overall consensus was payrolls (65-70k). Total health and social assistance jobs rose 90k, ve -28k prior.

- That being said, as implied by the very strong 186k rise in overall private payrolls (75k expected; prior rev to -129k from -86k) the overall private ex-health and social assistance gains in March were 96k, a 34-month high, after -101k in Feb. As such the gains were broader than just a healthcare rebound.
- The net revisions of just -7k to the prior 2 months are skewed: Feb was revised down by 41k with Jan revised up 34k. Incorporating the revisions to prior, the overall "surprise" in the level of March jobs was +106k.
- The unemployment rate came in on the low side of expectations too, at 4.26% (4.44% prior, 4.4% expected), though average hourly earnings were a little on the soft side (0.24% M/M vs 0.3% consensus); more shortly.

Payrolls Growth (000s) - Mar'26 Report

	Actual	Cons.	Surprise	2-mth Rev	Feb	Jan
NFP	178	65	113	-7	-41	34
Private	186	78	108	-9	-43	34

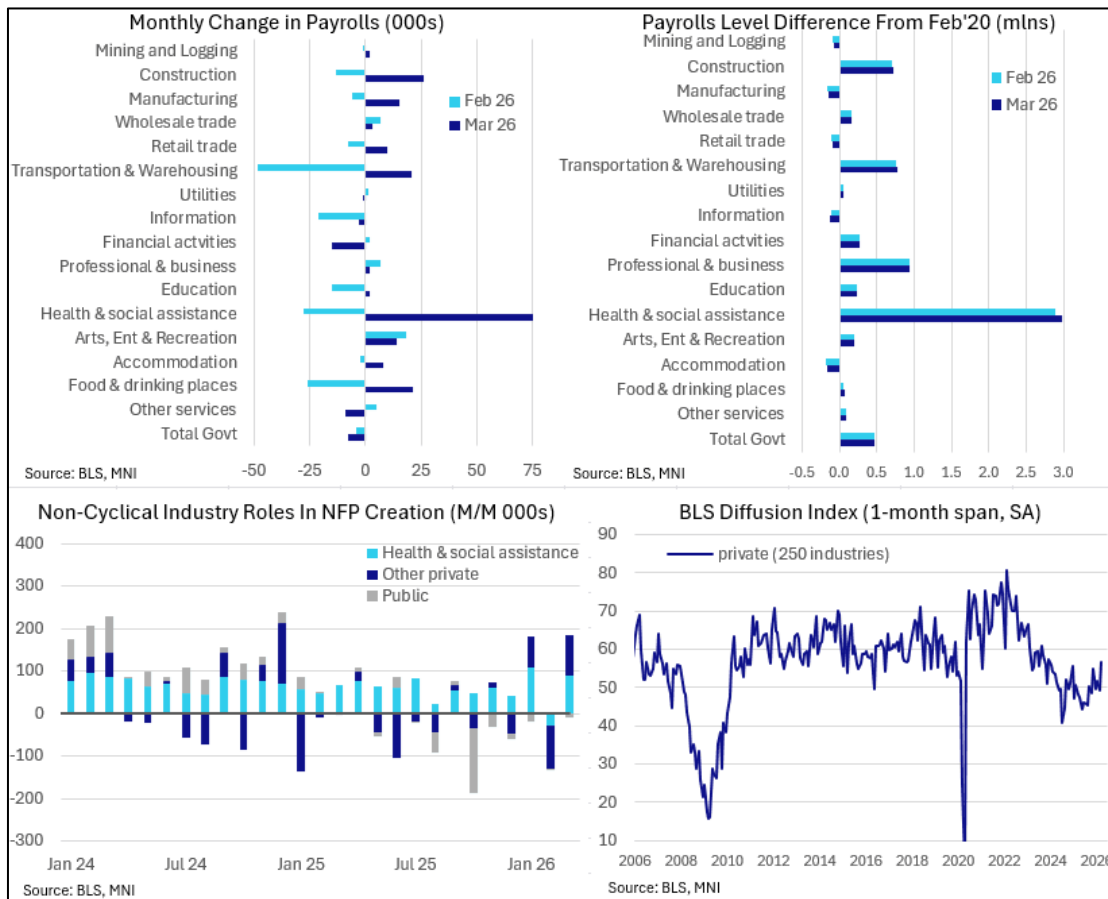
Source: BLS, Bloomberg Finance L.P., MNI



Impressive Breadth In Job Gains, In Rebound From Weak February

More on the impressive breadth of payroll gains across industries in March's report:

- It's best summed up by the diffusion index for job gains in private industries: 56.8%, up from 49.2%. This was the best "breadth" of job creation since December 2023. (BLS: "percent of industries with employment increasing plus one-half of the industries with unchanged employment, where 50 percent indicates an equal balance between industries with increasing and decreasing employment")
- The private goods sector saw 43k payroll gains (-20k prior), led by construction (+26k, -13k prior) and manufacturing (+15k, -6k prior). That's still only 6k net jobs created in goods producing payrolls over the last 6 months and -35k over the last 12 months, but this has been the best 3-month period (+68k) since the end of 2023/early 2024.
- Private services payrolls rose 143k (-116k prior) again fuelled by the 90k jump in health/social assistance category (-28k prior) though we saw major rebounds in transportation/warehousing (+21k after -49k) and food/drinking places (+22k after -26k), all three of which had seen solid increases in January before the February dip. Overall, Leisure and Hospitality payrolls jumped 44k after -11k. It's suggestive of one-off factors possibly having depressed February's payrolls (and of course, for healthcare, strike action).
- Public sector payrolls continued to drop: -8k (-4k prior), for the 7th consecutive fall which has seen 268k declines in the sector (punctuated by deferred resignations bumping up October's figure).



Hourly Earnings Maintain Downward Trend

The headline payrolls gain and unemployment drop in March's report were illustrative of a stronger labor market than feared, though there were some somewhat softer aspects worth noting.

- We start with the earnings data, which showed just a 0.24% M/M increase in average hourly wages, down from a slightly downwardly revised 0.38% in February (consensus: 0.3%). That brought total AHE Y/Y to 3.52% from 3.76% prior for the lowest since May 2021 (consensus: 3.7%).

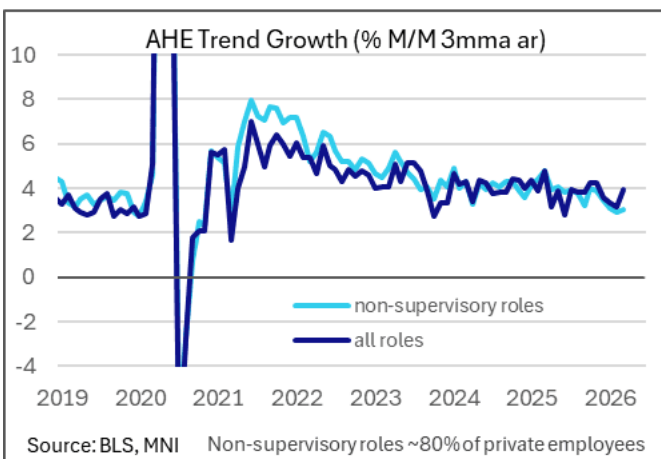
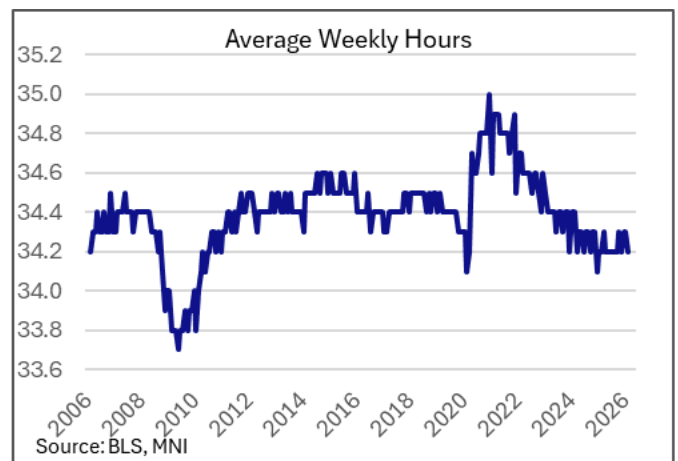
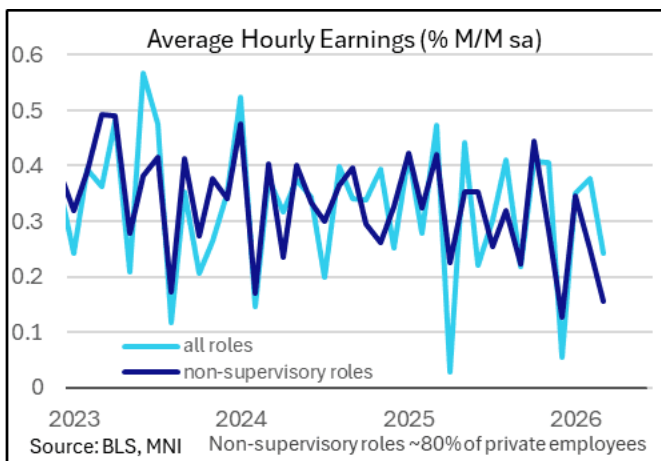
- Non-supervisory AHE was even weaker, dropping to 0.16% M/M from 0.25% in Feb (again downwardly revised slightly), with the 3.39% Y/Y reading down from 3.66% prior - also a post-May 2021 low.
- 3M/3M annualized AHE actually ticked up slightly but non-supervisory remained below 4%.
- Avg weekly hours were little changed, at 34.2 from 34.3.
- Overall we think FOMC members are taking increasing signal from metrics like AHE to determine whether the labor market is softening, so we would anticipate this will garner some attention in the overall assessment.

Total AHE:

- M/M (SA): 0.241% in Mar from 0.377% in Feb (initial 0.404%)
- Y/Y (SA): 3.517% in Mar from 3.756% in Feb

AHE Non-Supervisory:

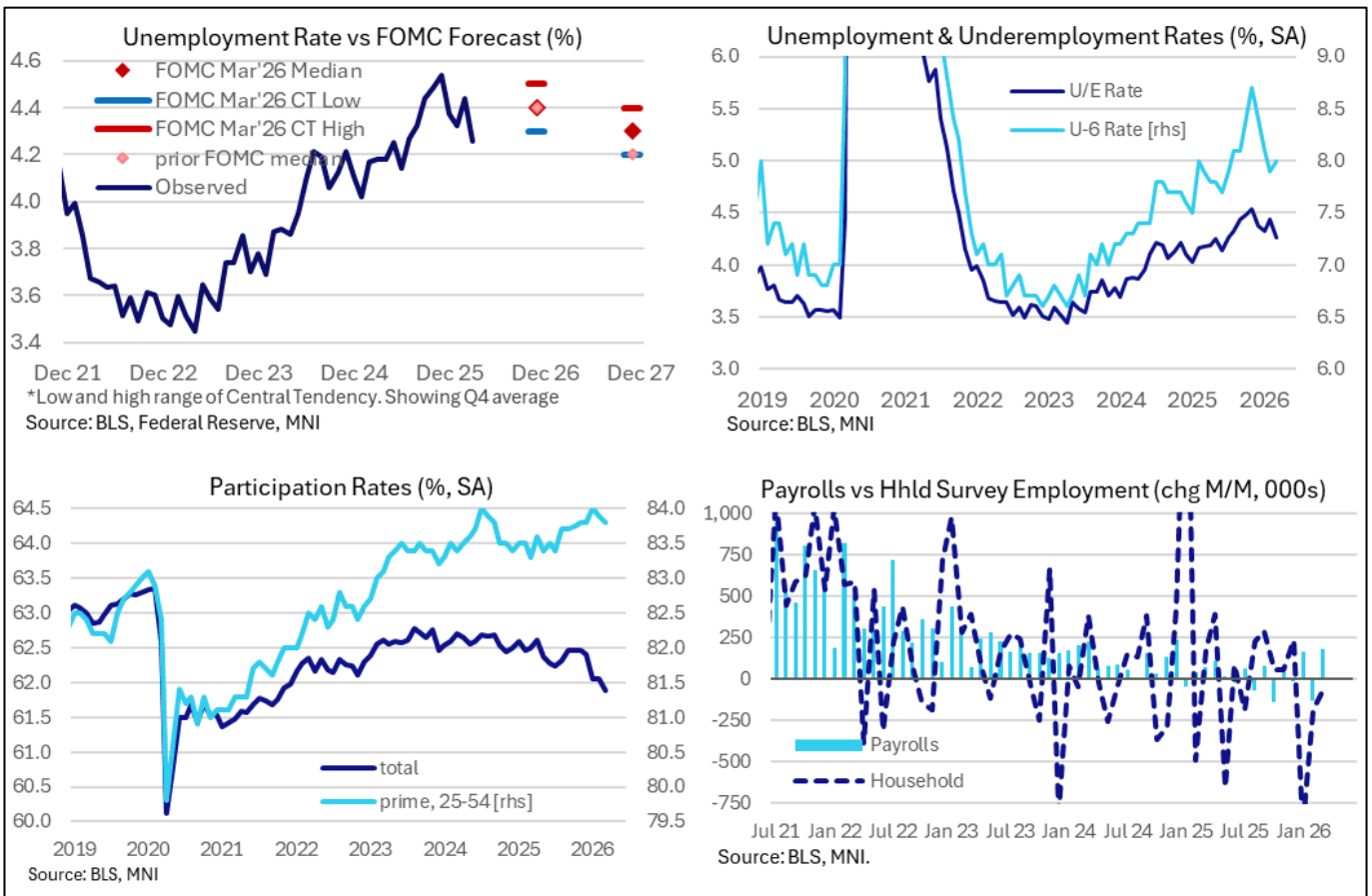
- M/M (SA): 0.156% in Mar from 0.25% in Feb (initial 0.282%)
- Y/Y (SA): 3.385% in Mar from 3.658% in Feb



Weak Labor Force Dynamics Undermine Unemployment Rate Drop

The details of the lower-than-expected unemployment rate in the Household Survey of March's employment report was less impressive than it appeared on the surface. To be sure, the fall in the unrounded rate to 4.26% from 4.44% marked the lowest since June 2025, and 0.28pp down from the November peak (which was a distorted report given the federal government shutdown). It means that absent future deterioration, there are nascent downside risks to the Fed's median unemployment forecast of 4.4% by end-2026.

- But the FOMC might be uncomfortable with the details of that "progress", which leaves it uncertain whether it's supply or demand that is the bigger driver of the employment slowdown. While the Establishment survey posted 178k payroll gains, the M/M change in Household Survey employment showed a loss (-64k, SA). But the Household unemployment rate fell as the number of unemployed dropped by 332k after a 203k rise in February. That's the biggest decrease since November 2021.
- In turn, though, the ranks of unemployed were depressed by the number of those not in the labor force jumping 488k, biggest jump since May 2025 (all referring to non-January months that are distorted by annual population revisions). This included a 513k move from employment to not-in-the-labor force (albeit as with all of these Household data, these figures have been volatile of late including a 471k drop in February).
- The participation rate fell to 61.88% from 62.05% prior, the first sub-62% reading since 2021 and the lowest since October 2021. Participation fell across demographics: most notably prime-age participation fell to 83.8% from 83.9%, continuing to reverse the apparent gains to the 18-month high 84.0% in January; 16-24 (55.1% from 55.7%) and 55+ (37.2% from 37.3%) also declines.
- Even as the population rose 92k, the size of the labor force fell 396k, with the overall level down 0.3% Y/Y, with the turn-of-year population adjustment unusually failing to boost the year-on-year figure. Against this backdrop, the employment-to-population ratio fell 0.1pp to 59.2%, lowest since October 2021.
- The U-6 "underemployment" rate rose, to 8.0% from February's 7-month low 7.9%, with those working part-time for economic reasons jumping the most since August 2025 (+101k) though this only brings it back



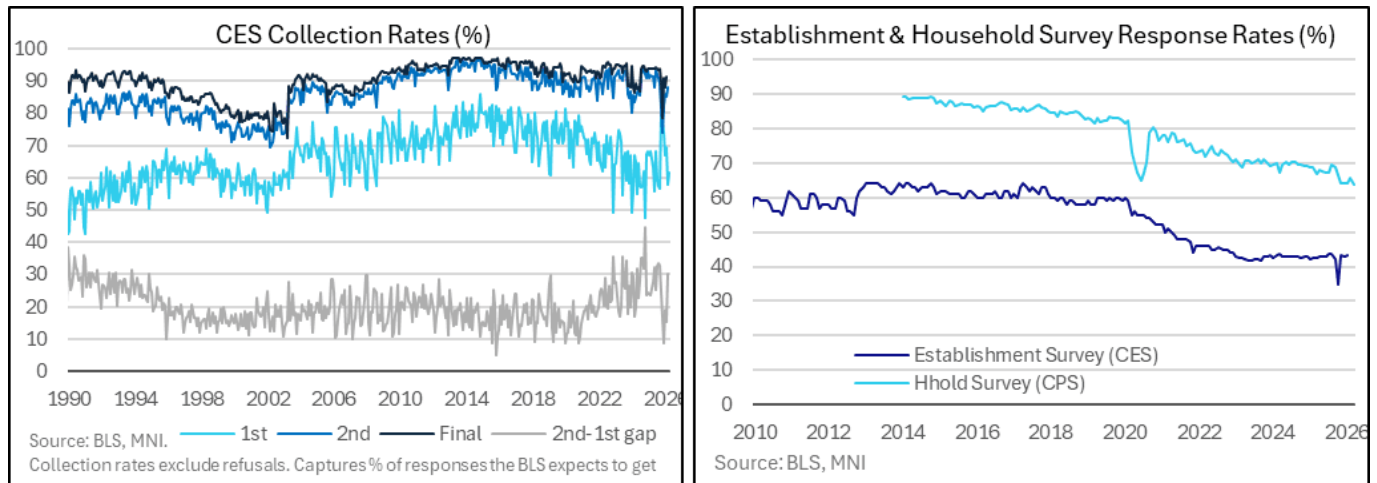
close to the level seen pre-government shutdown. Total part-timers increased fell 188k with implied full-time employees up 124k.

- In other statistical moves: Black/African-American unemployment fell to 7.1% from 7.7% prior, the lowest since June 2025, though there was a widening in the education gap with bachelors degree holders' unemployment dipping to 2.8% after 3.0% for 2 months, and those with less than a high school diploma seeing a second consecutive 0.3pp uptick, to 5.9%.

Response Rates For Establishment, Household Surveys Diverge

The response rates to the employment survey were improved in March on the Establishment side, with the 1st round collection rate rising to 61.7% from 57.7% prior; while that's still very low on a historical basis, it offers some consolation that February's abysmal rate (one of the lowest in survey history) wasn't repeated.

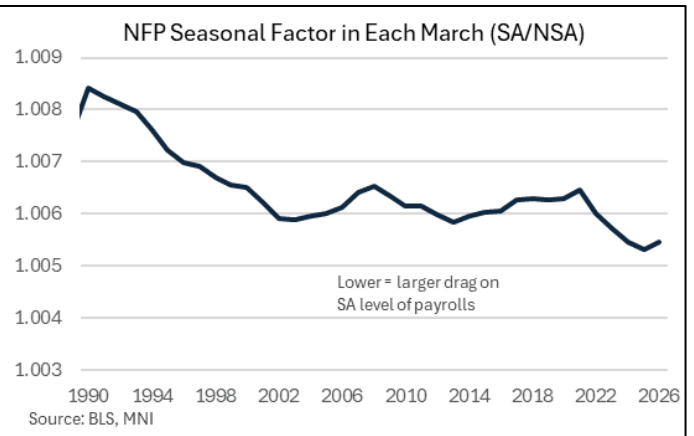
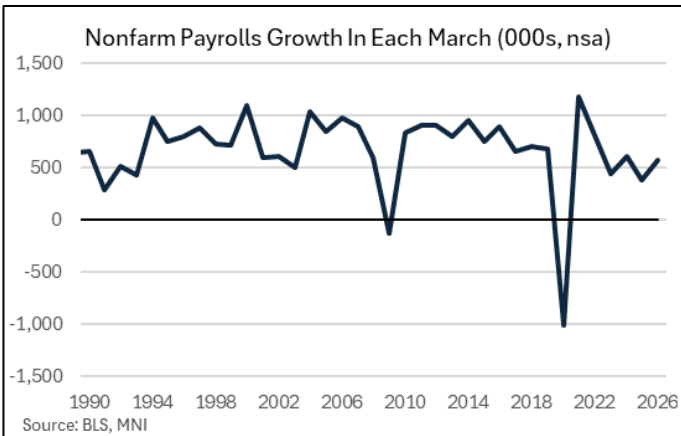
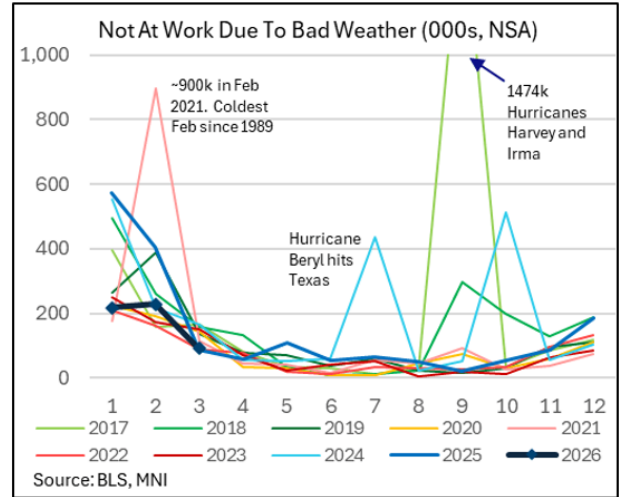
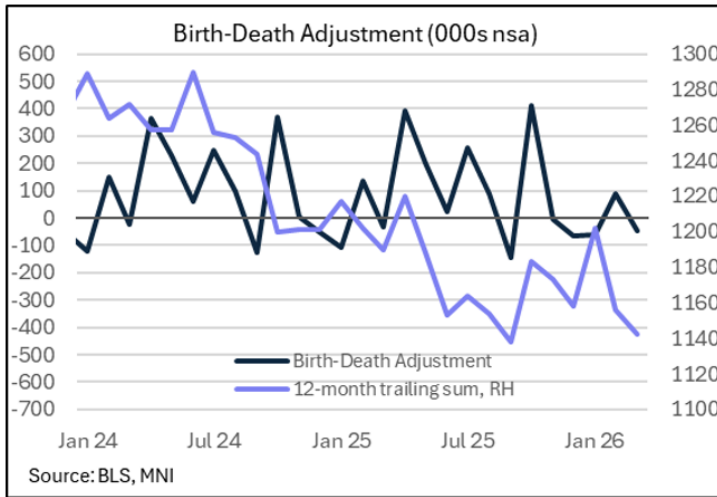
- And the 2nd response rate for February came in at 88.0%, meaning substantial new info for that month (and almost certainly contributing to the very large revisions: the absolute change in revisions over 2 months was 75k: Feb to -133k from -92k; Jan to +160k from +126k). That was the highest % of responses through the 2nd reading since August, while meanwhile January's ended up at 91.3% for also the highest since August.
- For the Household survey, though, responses weakened to a 63.9% rate, down 2pp from February and a fresh all-time low (for comparison, at the depths of the pandemic in 2020, this bottomed at 64.9%). This deterioration will cast doubt on the signal sent from the month-to-month changes on the Household side.



Limited Distortions From Birth-Death, Seasonal Adjustments

Even though March's headline payrolls number handily beat expectations, seasonal adjustments and the establishment Birth-Death adjustment were not particularly favorable to the reading.

- The non-seasonally adjusted change in nonfarm payrolls was +571k, coming after +476k. In keeping with March typically being a strong month on an NSA basis, the seasonal adjustment factor was negative for the gains, but at 0.995 was little different than in March 2025 (the chart below shows the reciprocal).
- The BLS's Birth-Death model subtracted 47k (NSA) from payrolls after adding 90k in February, for a 3rd subtraction in 4 months. That compares to -33k in March 2025 and was larger than the -22k average for the last 5 March's.
- As far as the Household Survey is concerned, weather wasn't really a factor: 91k (NSA) were not at work due to bad weather, almost identical to the prior year (87k) though slightly lower than the 122k average of the last 5 March's (this year's weather was particularly good for March). The rebound in construction and leisure/hospitality payrolls in March were also suggestive of a more solid-than-usual weather effect after February's depressed figures.

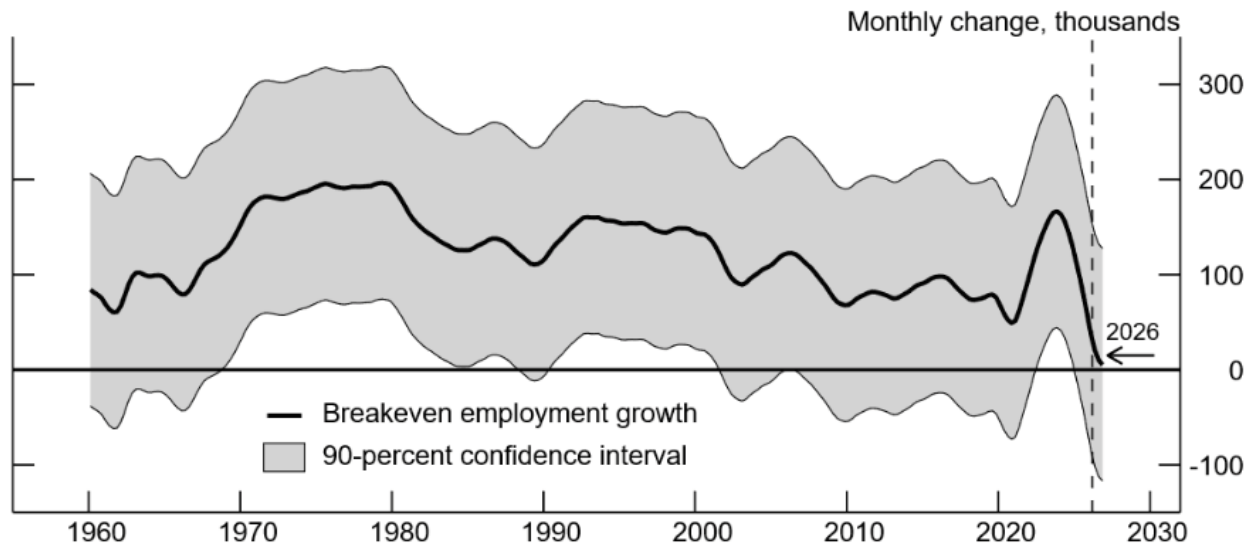


Fed Staff: Not Unusual To See -100k Payrolls Given Labor Force Shifts

That being said it's unclear what the threshold is for payrolls releases to move the needle for the FOMC, which is grappling with what it perceives as increased risks to both sides of the dual mandate as a result of the war and associated supply chain / energy price shock.

- We, and we suspect most on the FOMC based on recent commentary, have been paying more attention to the unemployment rate in the Household Survey than the headline payrolls figure in the Establishment Survey.
- We noted that the Fed staff snuck out [this paper Thursday](#), which almost seemingly downplays any surprise for March's headline payrolls figure in advance, concluding "near-zero labor force growth implies that breakeven employment growth (i.e. the pace needed to maintain a steady unemployment rate) would also be near-zero—making negative job growth almost as likely as positive job growth in any given month".
- And "the 90-percent confidence interval of total employment growth based on the BLS's estimate of the standard error of monthly payroll employment growth from their establishment survey ... implies that it would not be unusual for there to be one or more months in 2026 with declines in total payroll employment as large as -100,000 jobs, even if economic output was growing at the rate of potential output growth."
- Various FOMC members have commented that the breakeven rate could be around zero (Powell at March's FOMC: "You can say the break-even is zero"); we may see more discussion about this in the March FOMC minutes released on Wednesday.

Figure 2. Breakeven pace of employment growth



Note: The breakeven pace of employment growth is constructed using the change in the potential labor force, as shown in Figure 1, times one minus the noncyclical rate of unemployment from CBO (2026) (see Appendix C for more details). The 90-percent confidence interval is derived from the BLS's estimate of the standard error in its measure of the change in total payroll employment (see BLS 2026).

[Accessible version](#)

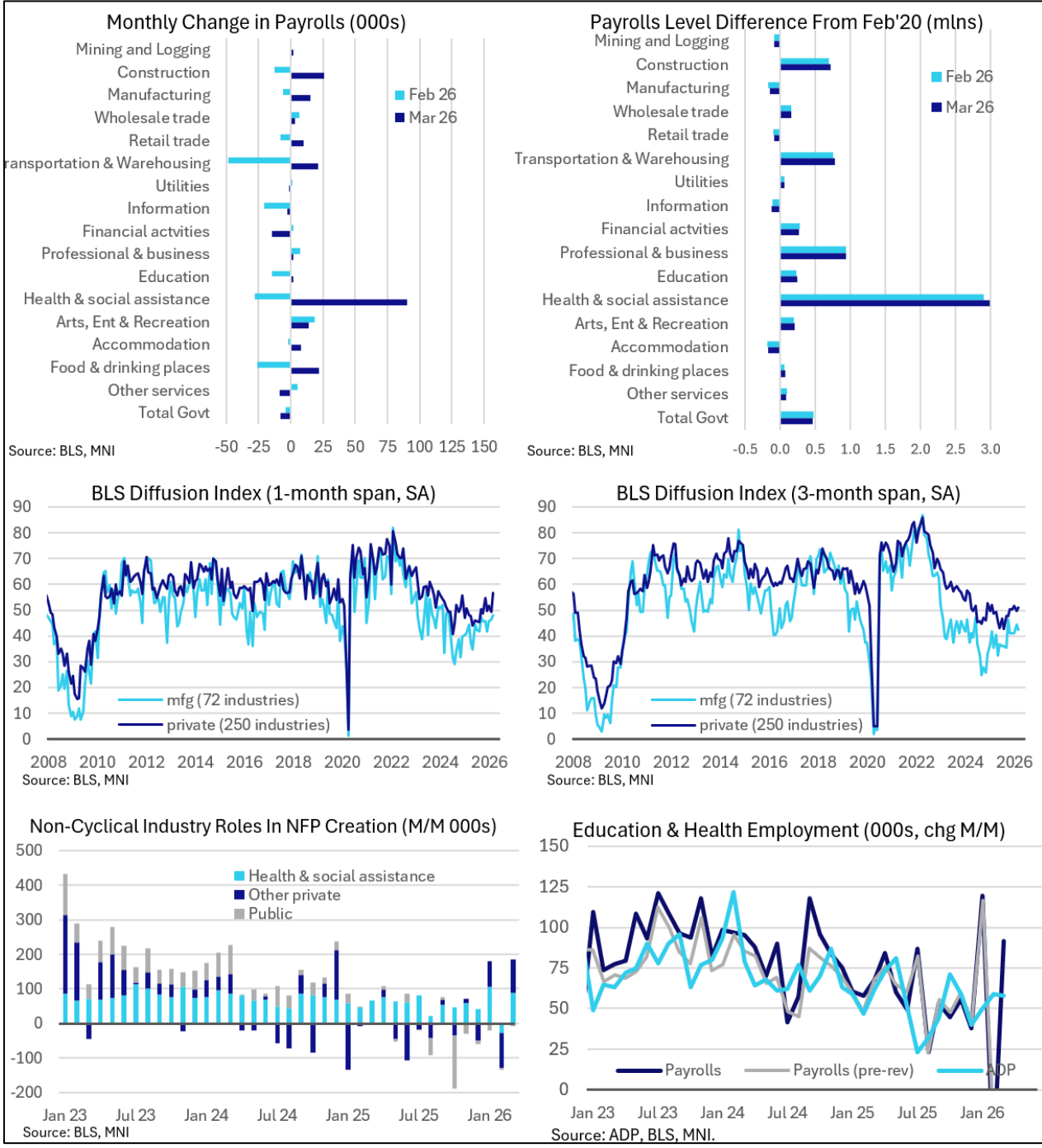
Source: Federal Reserve

STIR: Wait-And-See, More Than Before

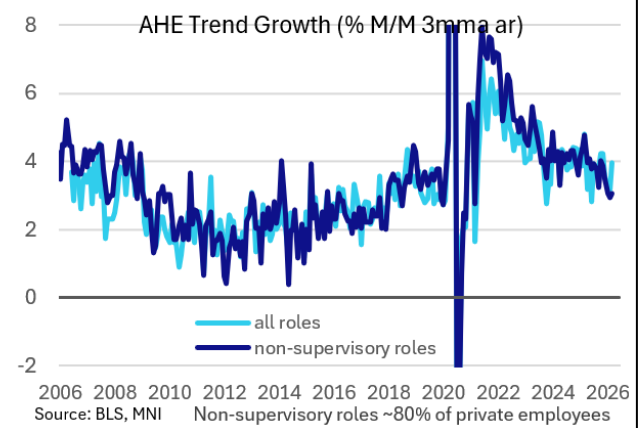
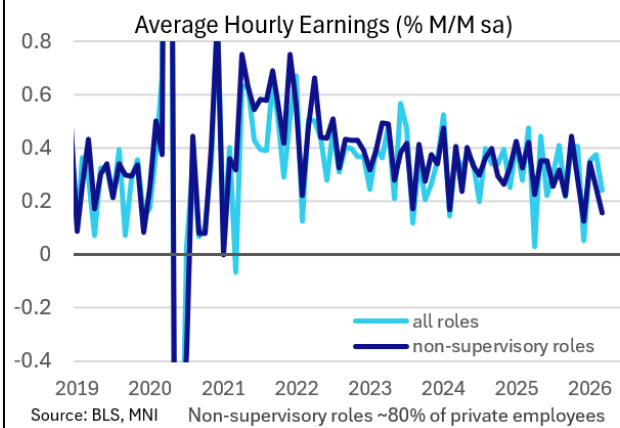
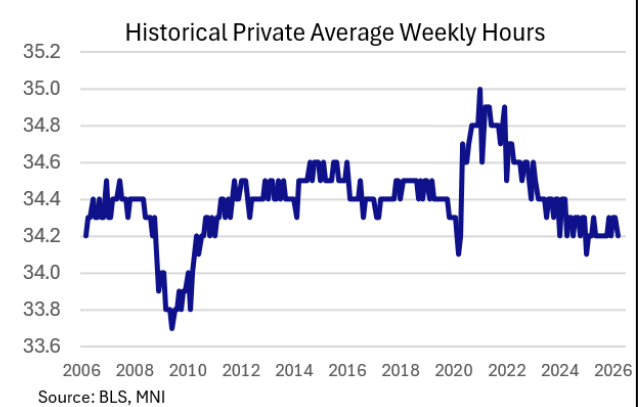
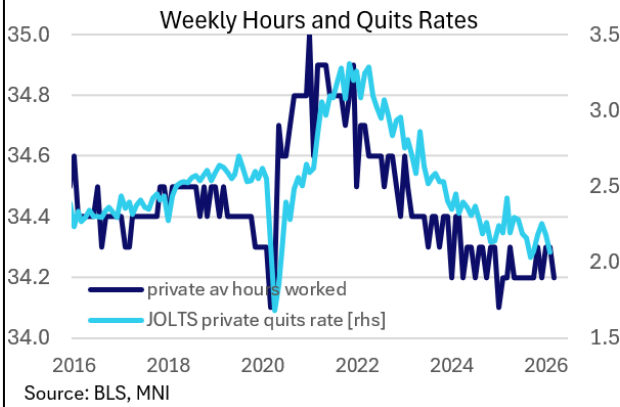
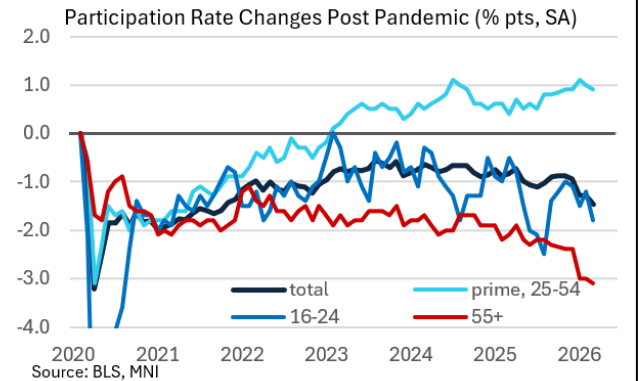
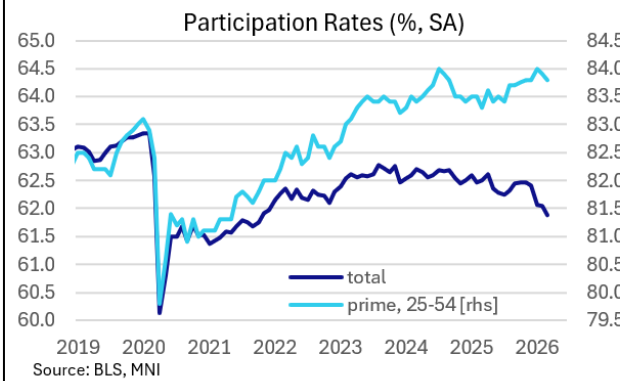
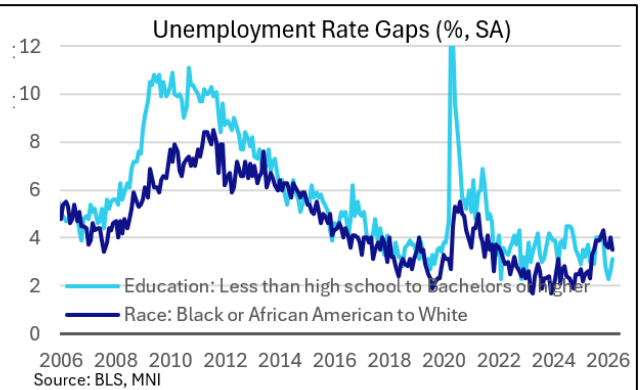
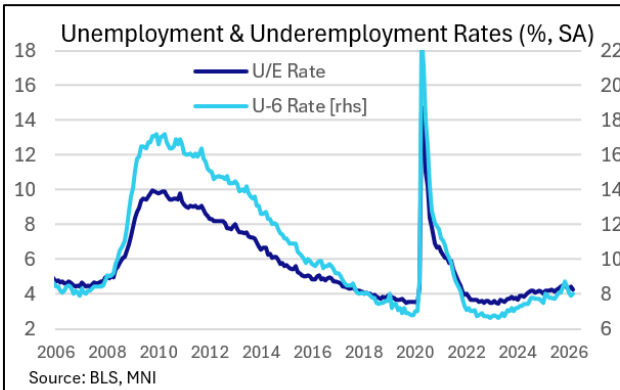
Market-implied Fed rate cuts were pared in the wake of the report, with Fed funds futures currently seeing just 1bp of cuts in 2026 as we head into the holiday weekend, vs around 5bp pre-report. And the data merely cemented that there will be no Fed move at the end-April meeting.

Meeting	Current FF Implieds (%), LH	Cumulative Change From Current Rate (bp)	Incremental Chg (bp)	Pre-March Payrolls	Chg Since Then (bp)
Apr 29 2026	3.64	0.2	0.2	3.64	0.0
Jun 17 2026	3.64	-0.5	-0.7	3.63	0.8
Jul 29 2026	3.63	-0.8	-0.3	3.62	1.4
Sep 16 2026	3.64	0.0	0.8	3.63	1.4
Oct 28 2026	3.65	1.2	1.2	3.63	2.4
Dec 09 2026	3.63	-1.4	-2.6	3.59	3.3
Jan 27 2027	3.62	-2.0	-0.6	3.58	4.0

Payrolls Report Chart Pack



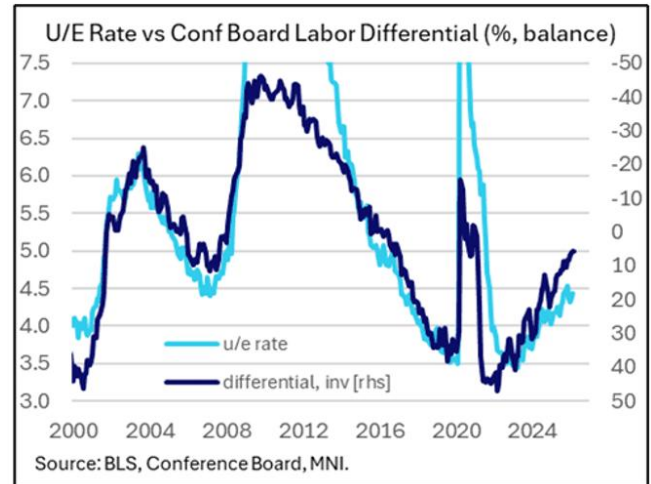
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Other Labor Indicators Of Note

Labor Differential Remains At Weak Levels

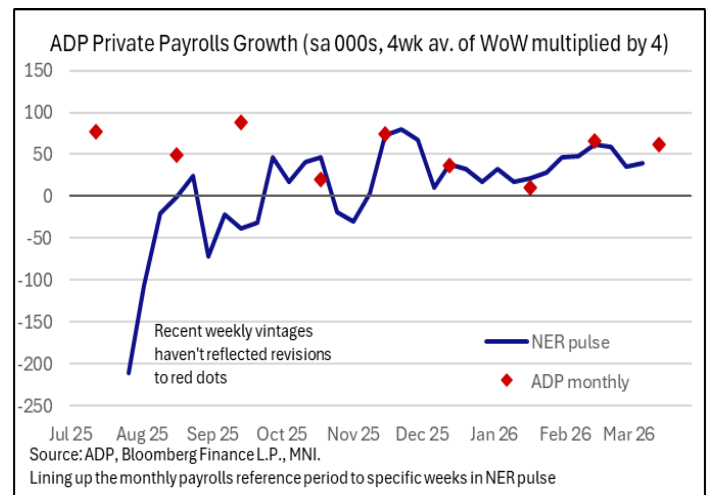
The Conference Board's March consumer confidence survey's Labor Differential (jobs plentiful minus hard to get) rose to 5.8% in March (plentiful = 27.3%, hard to get 21.5%) from a revised 5.7% (plentiful 26.7%, hard to get 21.0%) in February. That large downward revision to prior (had been 7.4%) means that February marked a new post-Feb 2021 low in the metric, and didn't really improve in March. In turn, that's suggestive of a further increase in the unemployment rate.

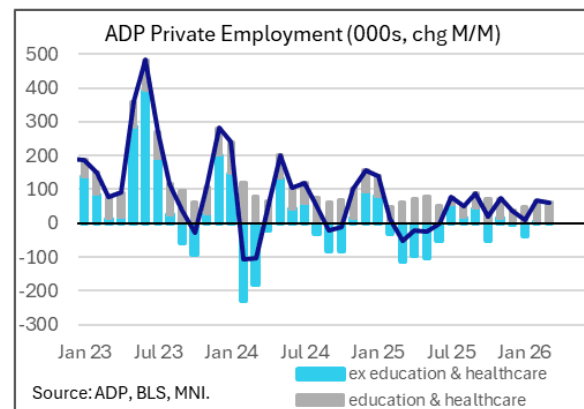
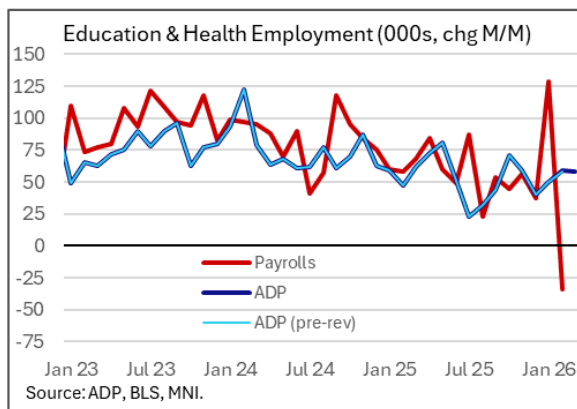
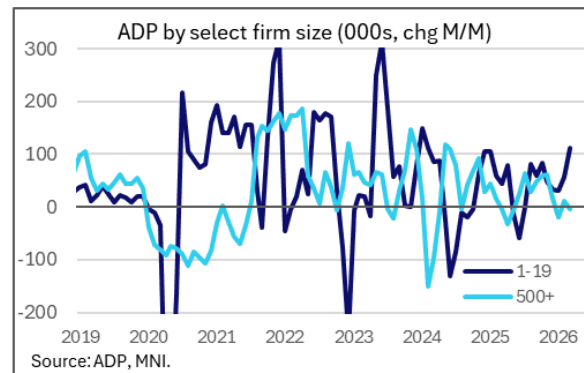
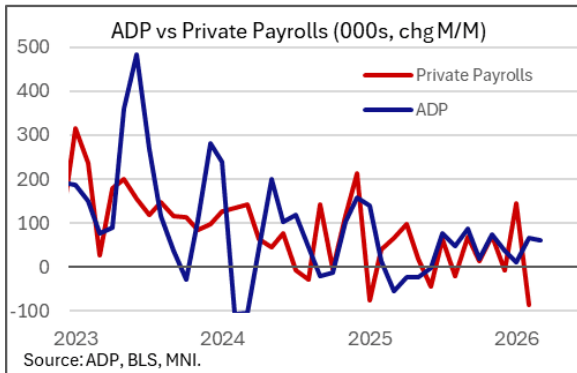


ADP Employment Beats With Decent Implied Uptick In Intra-Month Pace

ADP employment was stronger than expected in March as it pointed to a second month of solid jobs growth considering a backdrop of breakeven jobs growth potentially drifting towards the zero level. It paints a steadier recent picture to jobs growth than that in the more volatile BLS payrolls data in Jan and Feb, although didn't materially move markets with greater sensitivity on labor downside surprises amidst ongoing focus on Iran-related headlines.

- ADP private employment increased 66k (sa, cons 40k) in March after a marginally upward revised 66k in Feb (initial 63k) and 11k in Jan.
- The latest reading implies a reasonable recent uptick in job creation considering the prior weekly update up to Mar 7 (i.e. getting close to the reference period including the 12th of the month) had shown the equivalent to a 40k increase (providing a gravitational pull in analyst estimates).
- The series has limited correlation with BLS private payrolls on a month-to-month basis although that's recently more down to volatility in BLS data.
- That said, the three-month averages have been a little more consistent albeit with ADP a little more robust back in February (38k for ADP after today's update vs 18k for BLS private payrolls). The ADP three-month has since firmed to 46k for technically its highest since November although that is after a narrow range of 38-44k through Dec-Feb.
- From the ADP press release: "Hiring and pay gains both held steady in March. The smallest employers drove job growth for a second month, while hiring in trade, transportation, and utilities continued to decline."
- "Overall hiring is steady, but job growth continues to favor certain industries, including health care. In March, this solid performance was accompanied by a boost in pay gains for job-changers."
- As alluded to there, healthcare providers continue to drive private sector job creation and have seen a much steadier monthly profile so far this year than in the case of the BLS report - see chart.
- On that job changers pay point, it increased to 6.6% from 6.3% (a joint low since early 2021), whilst job stayers held at 4.5%.

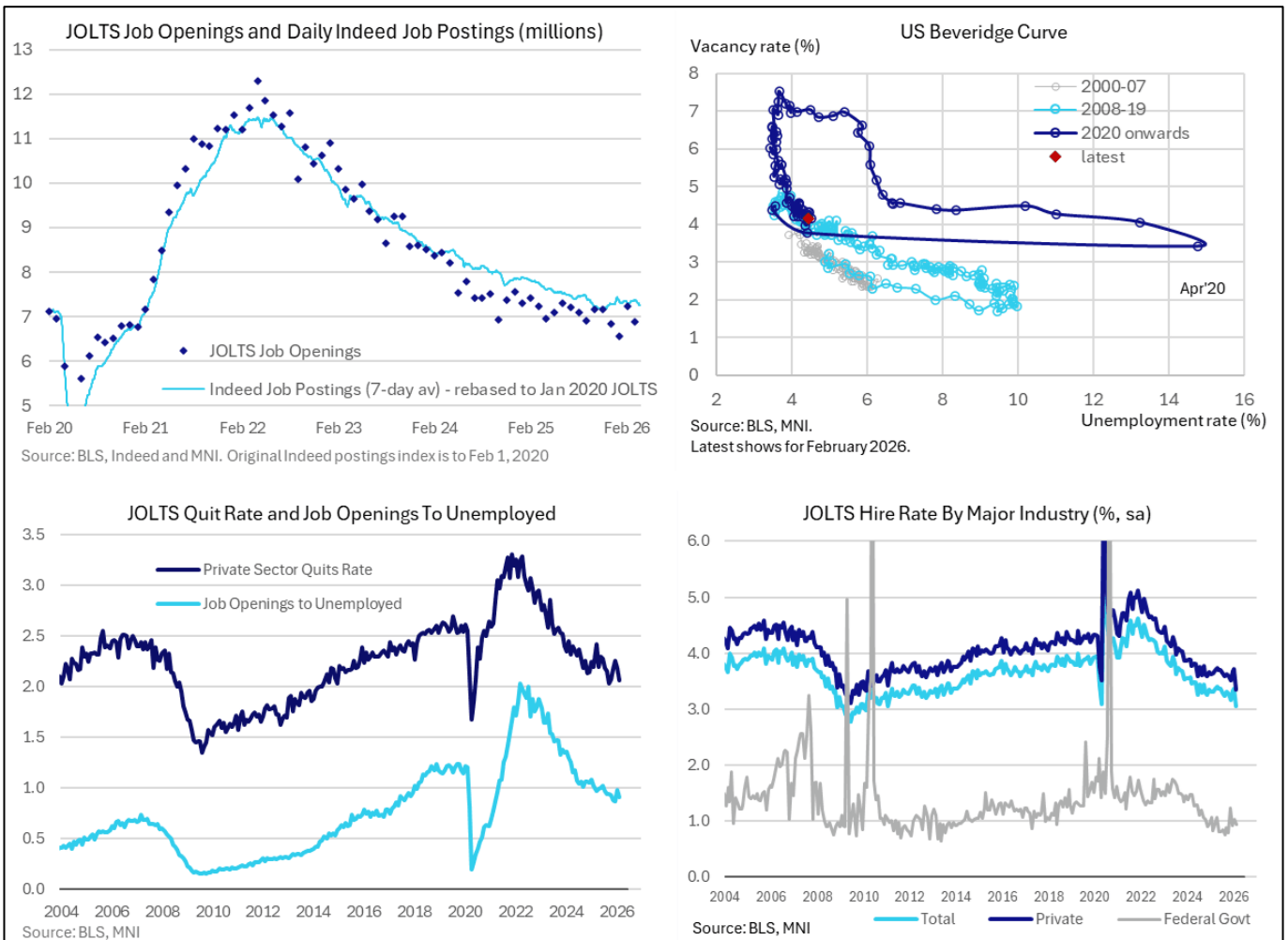




JOLTS Openings As Expected But Hire Rate A Notable Soft Point

JOLTS job openings were extremely close to expectations in February with the ratio of openings to unemployed hovering a little above last year's cycle lows. That said, the quits rate tells a slightly weaker picture and a sharp drop in the hire rates in particular should be of concern to the FOMC.

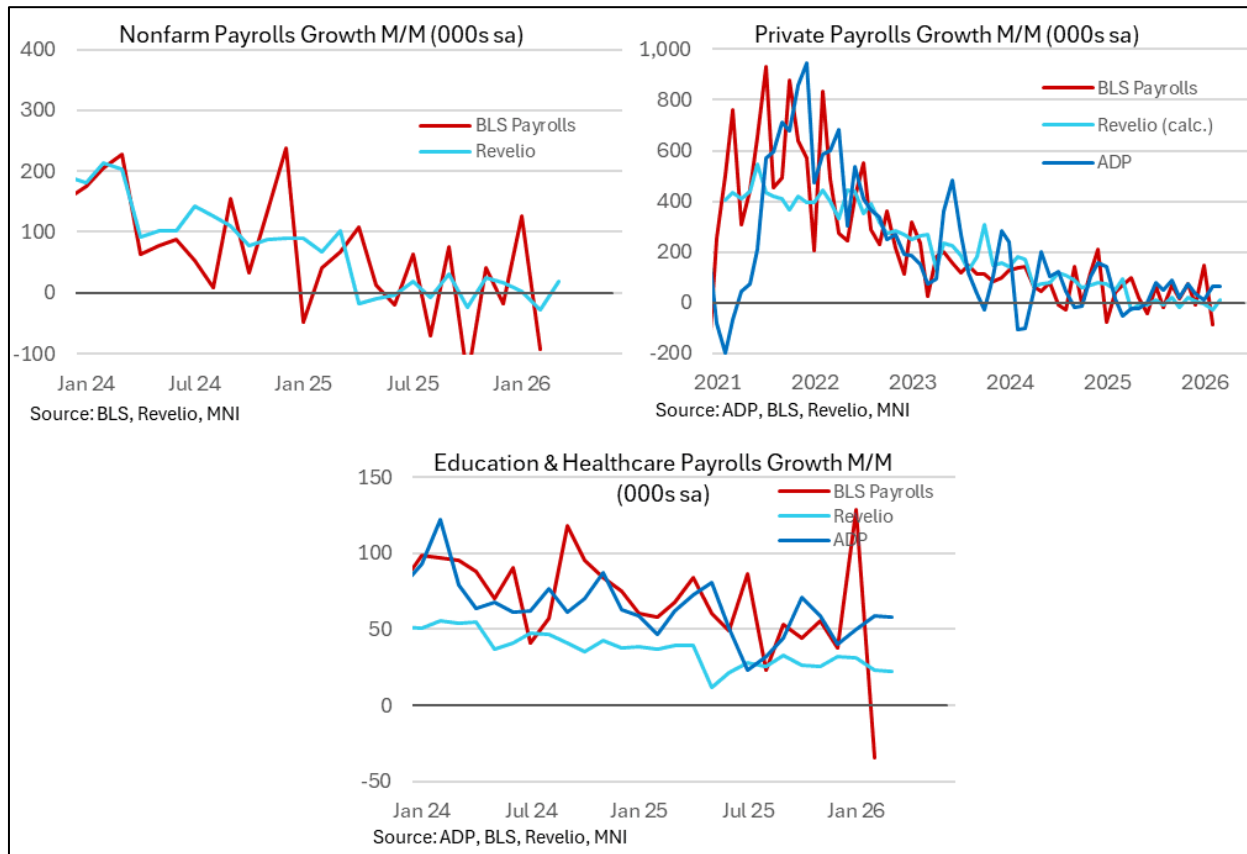
- Job openings were as expected in February at 6882k (sa, cons 6890k) albeit after an upward revised 7240k (initial 6946k) in January.
- That latest level of January job openings chimes much more closely with Indeed job openings after JOLTS openings recovered from a surprisingly low December reading. The latest gap between the two is more typical for the past two years.
- Combined with a bounce in unemployment back in February and the ratio of openings to unemployed dropped to 0.91 after 0.98 in Jan, although it remains above cycle lows of 0.88/0.87 in Dec/Jan.
- Pre-pandemic, it last saw 0.9 readings in 2017 having averaged 1.2 in 2019 and 1.1 in 2018.
- There's not much in it but the quits rate offers a slightly weaker relative take, dropping to 1.88 in Feb from 1.97 in Jan and 2.04 in Dec, matching October's 1.88 for the lowest since mid-2020.
- These are clearly depressed vs the 2.3% averaged in 2019 or 2.2% in 2017-18, offering another take on the low churn currently seen in the labor market.
- The private sector quits rate tells a broadly similar story although the 2.07 is above the cycle low of 2.03 in September, a month when the overall rate was boosted by a jump in federal quits on deferred resignations.
- Arguably the weakest area of the report though was the hires rate, which slid from 3.37% to 3.06% for its lowest since Jan 2011. The private sector hire rate falling from 3.72% to 3.35% showed a very similar trend.
- Various senior FOMC leadership have continued to warn on the vulnerability of the labor market to a further slowdown when starting from a base of low hiring.



Revelio Labs Estimates Modest Rebound In March Payrolls

Revelio Labs' estimate of 19k nonfarm payroll jobs created in March is the strongest M/M gain in the series in 4 months. That should be caveated heavily however, given the large revisions over time (at one point December 2025 had seen 71k jobs created in this series, that's now 17k). The comparison to BLS nonfarm payrolls is only faint on a month-to-month basis, though at least Revelio accurately captured the sizeable drop in February (17k fall, now estimated at 28k, vs BLS's 92k drop) and is now showing a rebound for Friday's report (consensus for BLS if 70k).

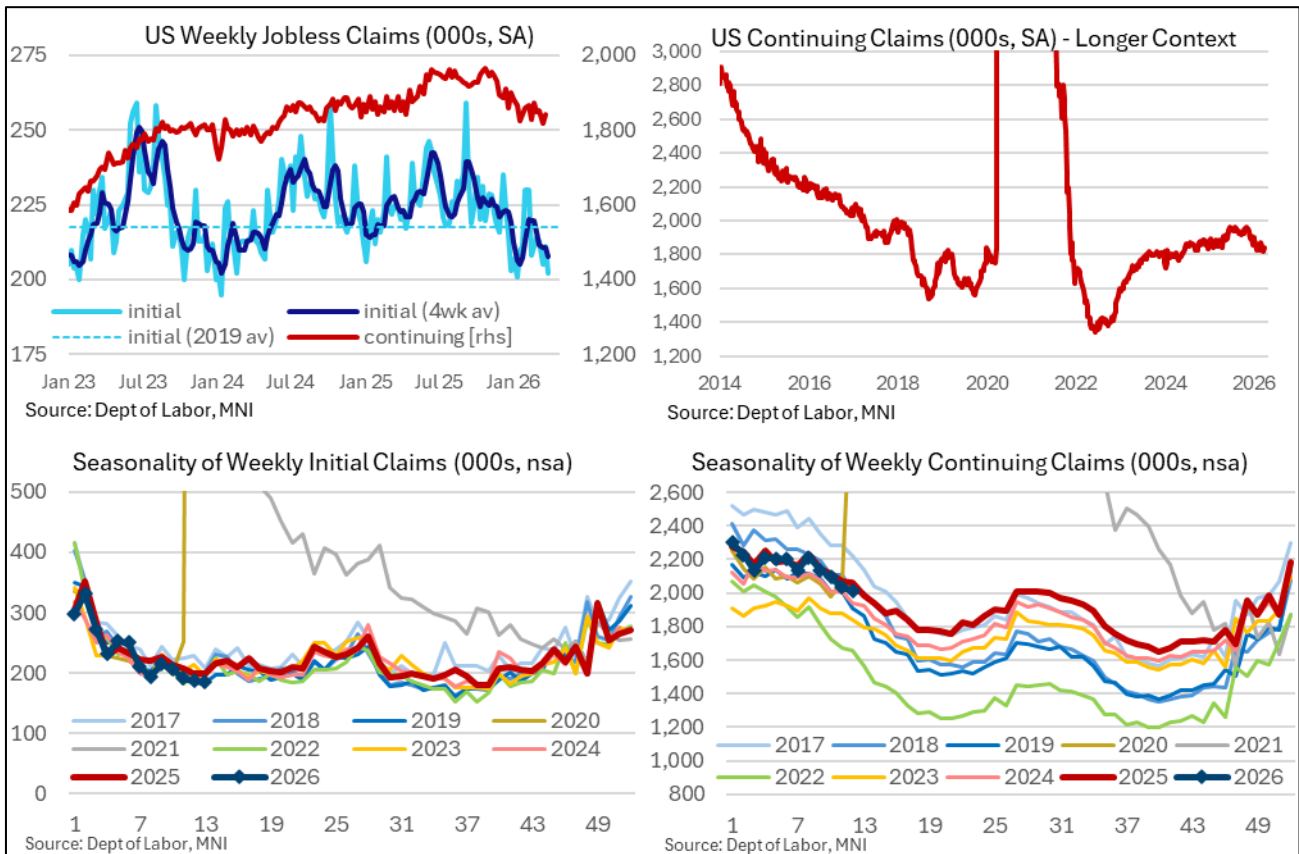
- Revelio estimates just 10k private payroll gains in March, however, with public sector payrolls gaining 10k. Education and Health Services payroll gains are seen steady at 22k (23k in February), with retail jobs declining for a 20th consecutive month (-26k). Strength in healthcare jobs would be no surprise in the March BLS report, with striking healthcare workers returning to the job and some steadying out of the February drop after a strong January due to high levels of illness.
- Revelio has been better at tracking longer-term dynamics, including the slowdown in job growth over the last 5 years.
- Revelio estimates monthly changes in unemployment by looking at professional profiles sourced from professional networking websites eg LinkedIn: "RPLS provides a set of employment statistics derived from over 100 million professional profiles sourced from professional networking websites. After deduplication, adjustments for reporting lags, and reweighing to ensure that the data resembles the national distribution of the workforce, these data yield timely and detailed measures of employment dynamics."



Initial Jobless Claims Hold Historically Low Levels

Latest jobless claims data saw the initial claims four-week average push closer to cycle lows. Continuing claims meanwhile edged higher but continue to confirm a stronger labor market than that seen in 2H25 along with a small revision to the prior week showing a more favorable comparison to recent payrolls reference periods.

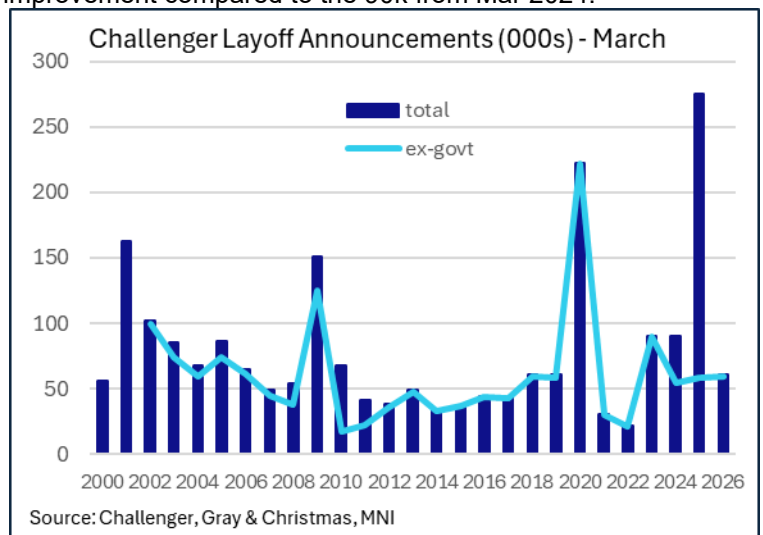
- Initial jobless claims were lower than expected at 202k (sa, cons 212k) in the week to Mar 28 after a slightly upward revised 211k (initial 210k).
- The four-week average of 208k (-3k) remains at historically low levels. It compares with a pre-pandemic average of 218k through 2019 at a time with a historically tight labor market despite the covered pool growing 6% since then.
- Continuing claims were slightly higher than expected at 1841k (sa, cons 1837k) in the week to Mar 21 after a downward revised 1816k (initial 1819k).
- That 1816k covers a payrolls reference period and follows 1827k in Feb, 1823k in Jan, 1910k in Dec and 1943k in Nov.
- Continuing claims have been within 1816-1884k so far this year (with the previous week's 1816k its lowest since May 2024) having already consolidated below the 1,900k+ figures seen through the latter half of 2025 for a return to roughly that seen between 2024-early 2025.



Steady Underlying Challenger Job Layoffs In March

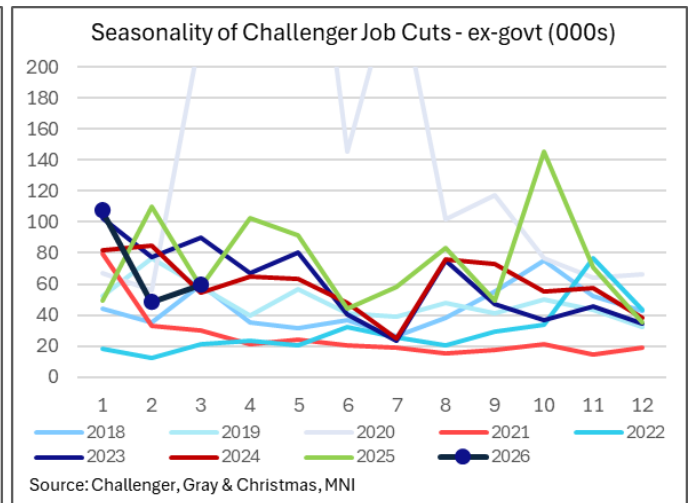
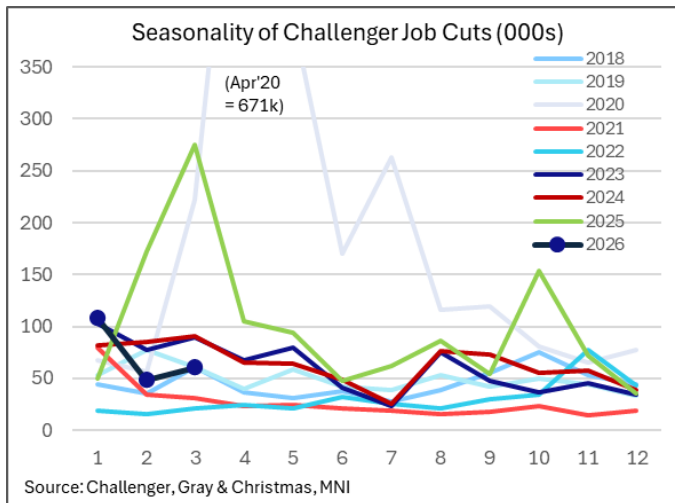
Challenger layoffs offered a solid view of the labor market, with ex-government layoff announcements sticking very close to March figures from the prior two years and also on a par with pre-pandemic figures. One change is a growing share of job cuts being attributed to AI, up to 25% in March from 10% in February.

- Challenger layoffs were 60.6k in March (nsa), a large drop from the 275k in Mar 2025 under DOGE actions (govt announced layoffs worth 217k) but also an improvement compared to the 90k from Mar 2024.
- Ex-govt layoffs amounted to 59.5k for near unchanged on a year ago by this series' standard (2% Y/Y). It follows some marked swings earlier in the year, with a sharp 117% Y/Y increase to 107k in Jan (highest since 2009 with sizeable contribution from Amazon, both directly and indirectly, behind the 31k of cuts in transportation and 22k in tech) before 48k in Feb for -56% Y/Y.
- This 59.5k compares with 58k in Mar 2025, 54k in 2024 and 90k in 2023, sticking close to the 59k averaged in March 2018-19.
- From the press release ([link](#)): "Removing the wave of federal layoffs announced in February and March of last year, job cut announcements in 2026 are closely following the pattern of 2025. Last year it was Government, Retail, and Technology. This year, it's Technology, Transportation, and Healthcare"
- Further details behind tech leading layoffs at 18.7k: "More layoffs are likely to come from Technology companies in 2026. Last month's total was made up primarily on a workforce reduction at Dell Inc.,



according to their latest annual filing. Oracle reportedly began layoffs late last month, though the company has not released a total figure. Meta, meanwhile, is undergoing layoffs in its Reality Labs division as it focuses on pivoting to artificial intelligence."

- AI: "In March, Artificial Intelligence (AI) led all reasons for job cuts, with 15,341 announced during the month, 25% of total cuts. Closings followed with 13,931, Restructuring was cited for 8,726, and Market and Economic Conditions accounted for 6,597 planned layoffs."
- That 25% share for reasoning of cuts compares with 10% in Feb (4.7k) and an 8% increase over Jan-Feb combined (12.3k).



MNI Policy Team Insights

MNI INTERVIEW: Fed Will Hold Pat, Inflation To Spike - Benigno

By Pedro Nicolaci da Costa (Apr 1, 2026)

WASHINGTON - Federal Reserve officials are likely to keep rates on hold for the foreseeable future as the Iran war appears set to boost inflation to uncomfortably high levels in coming months, former New York Fed economist Gianluca Benigno told MNI.

"The sensible approach for the central bank is to wait and see," Benigno said in an interview. "My feeling is that real-time indicators, monitoring the supply chain, you'll see soon these things are going to probably affect the prices."

Benigno, who helped launch an index of global supply chain stresses during his time at the Fed, said the shock from Iran extends well beyond energy and has started to affect infrastructure that could a long time to get back online.

"There are already, even if the situation goes back to normal, disruptions that are going to last far beyond the reopening of the Strait – and we're not even in that situation," he said.

"That is what makes me think that this time we might see inflationary pressure building in, not immediately, but we should see first at the level of producer inflation and then propagating in the economy."

While it's difficult to conduct scenario analysis under such high uncertainty, one plausible prospect is for "a relatively big shock even for one month" to send PPI above 6% and CPI to around 4% by the first half of next year, he said.

That's not to say that growth is not also at risk from the Iran shock, though Benigno is not worried about a recession on the horizon and believes the inflation threat is more prominent for the Fed. "I see more risk on the inflation side," he said.

Fed officials have recently indicated they are in no rush to lower rates further until they gain clarity about how any new shocks will affect the outlook. (See MNI INTERVIEW: Prolonged Fed Hold On Stagflation Risk-Lavorgna)

BALANCE UNDER WARSH

Benigno, now a professor of economics at the University of Lausanne, said Fed chair nominee Kevin Warsh is also likely to keep rates on hold when he takes over from Jerome Powell later in the year given renewed price pressures.

But he also sees any rate hikes as a low probability. "I don't see that happening, even though there are some FOMC participants that have that inclination."

Just as it would be difficult for Warsh to push for a cut against the committee's wishes, so would it be a tall order for hawks to make the case for actively hiking into an energy shock, said Benigno.

"There is always a bit of mediation among different positions," he said.

The different responses from the Fed, which has signaled a prolonged hold, and the ECB, which is flirting with possible hikes, are explained in part by the different geographic hit from the energy supply disruptions, he said.

Benigno believes the first line of defense against a prolonged energy shock should be some amount of fiscal support that shields consumers from the worst effects of the crisis, like some measures already being implemented in Asia.

MNI INTERVIEW: Fed Has Little Room to Look Past Iran Inflation

By Jean Yung (Mar 31, 2026)

WASHINGTON - The Federal Reserve has forfeited the flexibility to look through the inflationary shock from the Iran war after having never fully restored price stability post-Covid, and will be forced to raise rates if inflation moves meaningfully higher, Joe Tracy, a former senior adviser to the Dallas Fed president, told MNI.

Had the Fed pursued more decisively its 2% inflation target earlier, it would now have the optionality to treat the surge in oil prices as a temporary supply shock, Tracy said. Instead, with inflation above target for six years running, the Fed may have to respond more aggressively to any further uptick in core measures.

"They can't wait," Tracy said in an interview. "If inflation starts to move up reasonably, I think they're going to have to raise rates and basically follow a Taylor rule and make sure that their real policy rate is rising."

The central bank's credibility is too fragile to risk another episode of apparent passivity, Tracy said, adding that inflation expectations remain anchored "until they're not" -- and that by the time policymakers notice the change, it may be too late.

"The last thing the Fed can allow to happen is for inflation expectations to shift up," he said. "Then you can be sure they're going to have to be much more aggressive. Think back to Volcker -- they certainly want to avoid that."

SELF-INFLICTED CONSTRAINT

A sustained move higher of 30 to 50 basis points by any of the core inflation measures would force the Fed's hand, Tracy said, adding that President Donald Trump's nominee for Fed chair, Kevin Warsh, is unlikely to yield to pressure from the administration to cut rates either.

The Fed's dilemma is partly of its own making, said Tracy, now nonresident senior fellow at the American Enterprise Institute. By opting for a cautious approach to avoid recession, policymakers left themselves exposed to precisely the kind of external shock they now face.

"Instead of achieving a soft landing, they achieved no landing," he said. "They ran out of time, this event happened, and they would have been in a much better situation had they more decisively dealt with the inflation issue a couple years ago."

Financial conditions have tightened as market expectations shift from pricing in two quarter-point cuts this year to roughly even odds of a rate increase, and term premiums are rising to reflect the wider range of uncertainty around the conflict's duration, resolution and ultimate impact on energy prices, Tracy said.

Still, conditions remain easy, an indication that Fed rates are near neutral, Tracy said.

"The question is, given where inflation was and still is, is that the appropriate policy?" he said. (See [MNI INTERVIEW: Prolonged Fed Hold On Stagflation Risk-Lavorgna](#))

MNI INTERVIEW: Fed Will Have Room To Cut Later This Year - Levy

By Evan Ryser (Mar 26)

WASHINGTON - The Federal Reserve should be able to lower interest rates in the second half of the year because the erosion of consumer spending and employment conditions resulting from the spike in energy costs will likely outweigh a temporary boost to prices, Mickey Levy, an outside advisor to several Fed Banks, told MNI.

The Fed is likely on hold for the next couple of meetings, he said in an interview. "And then I think the the transitory impact on inflation will work its way through," said Levy, a member of the Shadow Open Market Committee, a group of private academic economists that acts as the Fed's outside watchdogs. At this point, he expects one or two rate cuts by the end of the year.

The most likely scenario is the conflict in the Middle East lasts a couple more weeks and continues to pressure higher oil prices, before some sort of messy ceasefire. "With that scenario you would be touch and go with a mild recession and the Fed would be on hold between now and June but there would be room to cut rates after that," Levy said.

RESIDUAL IMPACTS

"After the temporary zooming of oil prices works its way through the CPI temporarily on the monthly data over a two to three month period, then the Fed is stuck looking at the economy that is going to get hit by this," Levy said. "Growth in consumption was already slowing in response to the slowdown in the growth of real disposable income, and now that's going to be accentuated."

"Then beginning in June, the monthly inflation readings will come back down, and as they come down, the Fed will be looking at that transitory impact, but they'll be looking at the residual negative impact on the real economy and labor markets," he said. "Enter Kevin Warsh and there will be room for them to lower rates." (See: [MNI INTERVIEW: Prolonged Fed Hold On Stagflation Risk-Lavorgna](#))

A more negative scenario, however, would be that the bombing and the disruption to global oil continues for another month or two. "Then the impact on inflation lasts longer and the impact on the real economy in labor markets becomes more negative for longer."

Levy, a visiting fellow at the Hoover Institution, said interest rate increases are unlikely, but the central bank should nonetheless keep its communications open to the possibility given that it hasn't reached its 2% inflation target in 5 years.

Beyond the near-term outlook, Levy noted advancements in AI and a boost in the trend of productivity growth. "I find it very interesting that the Fed basically is on board with the productivity growth," Levy said. The Fed's latest median SEP estimates showed increases in the U.S. economy's long-run GDP growth rate to 2.0% from 1.8%, while the estimate of the neutral interest rate rose to 3.1% from 3.0%.

COMPROMISE

Levy has known Fed chair-designate Kevin Warsh, also a Hoover visiting fellow, for many years. "He is going to talk as a conservative central banker: price stability, moving back from its mission creep," he said. "But at the same time, he will be a pragmatist. He will be very collegial within the Fed."

A number of Fed officials have acknowledged an upcoming debate about the central bank's balance sheet and its ample reserves operating framework. On the balance sheet, "they'll end up compromising," Levy said. "My speculation is they'll compromise by saying ample still means a lot [of reserves] but we will accelerate the reduction of our holdings of MBS, maybe even through a swap with the Treasury." (See: [MNI POLICY: Long Road To Scarcer Reserves For Warsh](#))

"I think there will also be compromises on monetary policy," he added, which could also mean more dissents on the FOMC. "I will view them as healthy debate."

MNI INTERVIEW: Prolonged Fed Hold On Stagflation Risk-Lavorgna

By Pedro Nicolaci da Costa (Mar 26)

WASHINGTON - The Federal Reserve will likely need to leave interest rates on hold this year as stagflationary pressures associated with the war in Iran raise risks to both sides of the central bank's mandate, former Counselor to the U.S. Treasury Joseph Lavorgna told MNI.

Lavorgna said the economy was poised for a bumper 2026 until the Iran shock raised oil prices to levels that are set to both boost inflation and dampen the boost to GDP from tax cuts and deregulation.

"When in doubt, they're going to sit it out. The Fed is going to wait and not do anything," said Lavorgna, chief economist at SMBC Americas, who left the Treasury earlier this year.

"Tariffs you can look through. It's harder to look through energy costs because they're an input, it's potentially not a one-time price effect. So you have to be very careful trying to offset the demand shock from the higher prices not knowing how long prices are going to persist."

Before the war, the Fed appeared set to keep cutting rates gradually because it was willing to look through some lingering inflation that it attributes largely to the temporary effect of tariff increases. That meant that strong growth was likely to help stabilize a job market that has clearly softened, Lavorgna said in an interview.

"Now with what's happening with the energy markets that's been cast in doubt, because the energy price of particularly retail gas is a huge cash strain on U.S. households," he said. (See [MNI INTERVIEW: Fed On Pause Amid Two-Sided Risks - Rosengren](#))

STAGFLATION WITH A SMALL S

In a scenario where the war and the associated spike in energy costs drags into summer or fall, it's plausible that economic growth slows to around 1% even as inflation jumps to 4% from current readings close to 3%, Lavorgna said.

"That's stagflation with a small 's'," he said, adding that this doesn't yet compare with the 1970s equivalent but carries its echoes.

That would force the Fed to stand pat – though not hike rates – because, by its own admission, rates are still mildly restrictive as it is and financial conditions are already tightening further because of the energy shock, said Lavorgna, who was previously chief economist at the White House's National Economic Council.

"To me standing pat is enough. I think it's going to be very difficult for the Fed to hike rates, because, number one, by the Fed's own admission, rates are above neutral, wherever that is. Number two, if this situation persists, and that means financial conditions are going to be tighter because you're going to have higher yields, you have a stronger dollar, you're going to have weaker equity prices. The uncertainty around the outcome is going to cause companies to be more cautious." (See [MNI INTERVIEW: Fed Hike Still Unlikely Base Case-Lockhart](#))

The Fed cut rates three times last year to a 3.50-3.75% range, but Lavorgna noted the spike in bond yields since then has all but erased any easing of monetary conditions, with the 10-year Treasury yield trading at 4.37% Thursday.

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