

U.S. Inflation Insight: May 2026

MNI View: Energy And Services Pack A Punch

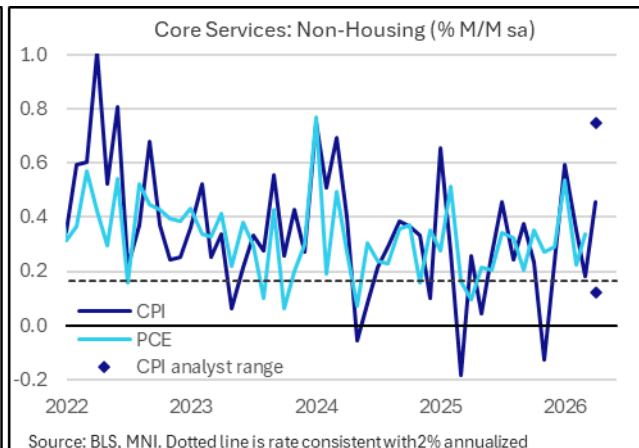
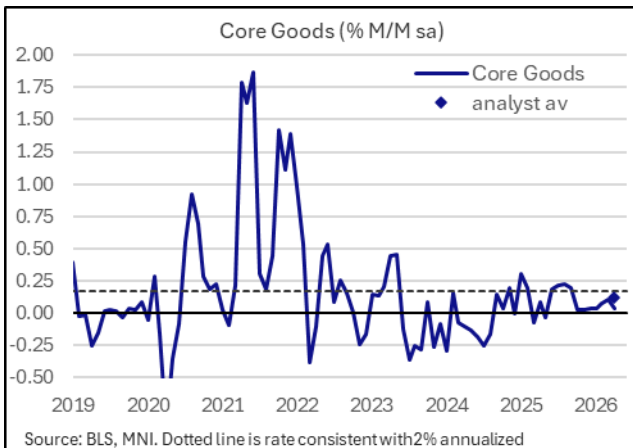
May 13, 2026 – By Tim Cooper and Chris Harrison

Executive Summary

Soaring energy prices amid the conflict in the Middle East continued to punctuate the overall strength in inflation in April. Consumer price inflation was slightly hotter than expected, with some unexpected softness in core goods offset by strong services dynamics – but headline producer price inflation was scorching (less so on core). Overall, sequential core PCE looks to have been relatively steady in April vs March and won't allay the FOMC's growing concerns that the dual mandate balancing act is turning decisively to an inflation-fighting battle.

CPI	Mar	Apr
Core M/M	0.196%	0.376% (cons 0.36)
Headline M/M	0.865%	0.640% (cons 0.56)
Core Y/Y	2.60%	2.75% (cons 2.7)
Headline Y/Y	3.26%	3.81% (cons 3.7)

- The sequential pickup in core CPI % M/M in April (to 0.38% vs 0.36% consensus from 0.20% in March) was largely driven by services, while headline registered 0.64% M/M (vs 0.56% consensus, 0.87% prior), driven by a continued surge in energy and a pickup in food prices.
- The pickup in services was primarily due to the doubling of housing's contribution to core CPI, to 0.23pp from 0.11pp. This was expected given April's methodological quirk that pays back for last October's missing data due to the government shutdown and will reverse next month.
- But even outside of that, services printed on the high side: Core services excl OER & primary rents ('supercore'): 0.454% M/M after 0.179% prior, around the middle of a very wide range of expectations.
- Conversely, with the exception of apparel, core goods CPI inflation was surprisingly tepid in April, with our estimate of median inflation echoing this.
- The main inflation gauges in the April PPI report substantially exceeded expectations, with the details not offering much comfort either. The headline final demand PPI came in at 1.4% M/M, well above the 0.5% consensus and the Y/Y reading at a post-2022 high 6.0% (4.8% expected). Mitigating the impact of the report is that a large portion of the overall rise was in trade services, meaning that the main core aggregate - ex-food/energy/trade services - was closer to the expected mark at 0.6% M/M (consensus 0.3%) though the Y/Y gauge rose to 4.4% (4.2% consensus), the highest since Feb 2023.
- Analyst estimates for April core PCE were little changed but mostly lower after the PPI report, with the subcomponents seen as mixed. With expectations for core PCE after the CPI report having centered around 0.31% M/M, they now appear to be closer to 0.30%, similar to March's 0.29%.
- The CPI/PPI combo failed to move the needle much on Fed pricing, with futures currently implying 9-10bp of cumulative Fed tightening by year-end, the same as just prior to the CPI release Tuesday. That said, it kept the broader uptrend in place, with expectations briefly at 11bp following the PPI report.



CPI Details

Slight Deviations v Expectations In Key Categories, Services Drive

Only slight deviations vs expectations in April's key CPI categories - see table below.

- Upside in Headline and Core was driven by services, with both supercore (0.45% M/M vs 0.29% MNI Median, 0.18% prior) and primary rents (0.55%, vs 0.40% MNI median, 0.19% prior) notably higher than expected, joined by lodging (2.4% vs 0.0% MNI median, 0.24% prior) and offset by a slight downside miss in airfares, flat medical care services prices and negative communications services.
- Core goods were on the cooler side once again, essentially flat with both new/used vehicle prices non-factors. The headline food and energy prices were a little hotter than anticipated, though gas prices were a little on the soft side (but still soaring at +5.4% M/M).

Summary of Key Core Categories Vs Analyst Consensus (Red=Higher Than Avg Expectation, Green = Lower)

mni	Headline	Core	Supercore	Core goods				Services				Headline Components			
	SA	SA		used cars	new vehicles	apparel	OER	rents	lodging	airfares	auto ins.	Food	Energy	of which: gasoline	
	M/M	M/M	M/M	M/M	M/M	M/M	M/M	M/M	M/M	M/M	M/M	M/M	M/M	M/M	
Apr (Actual)	0.64	0.38	0.45	0.03	0.0	-0.2	0.6	0.53	0.55	2.4	2.8	0.1	0.5	3.8	5.4
April (median)	0.56	0.36	0.29	0.11	0.1	NA	0.2	0.50	0.40	0.0	3.5	0.0	0.3	3.4	5.6
April (mean)	0.61	0.33	0.34	0.23	0.2	NA	0.2	0.49	0.43	-0.1	3.1	0.0	0.3	3.5	5.6
Bbg consensus	0.6	0.3													
Mar (actual)	0.87	0.20	0.18	0.11	-0.42	0.10	1.03	0.28	0.19	0.24	2.67	-0.04	-0.01	10.87	21.23

* Headline/Core SA M/M medians only consider analysts' unrounded estimates

Sequential CPI Pickup Sees Services On High Side, Mixed Dynamics

The approximately 0.18pp sequential pickup in core CPI % M/M in April (to 0.38% from 0.20% in March) was largely driven by services.

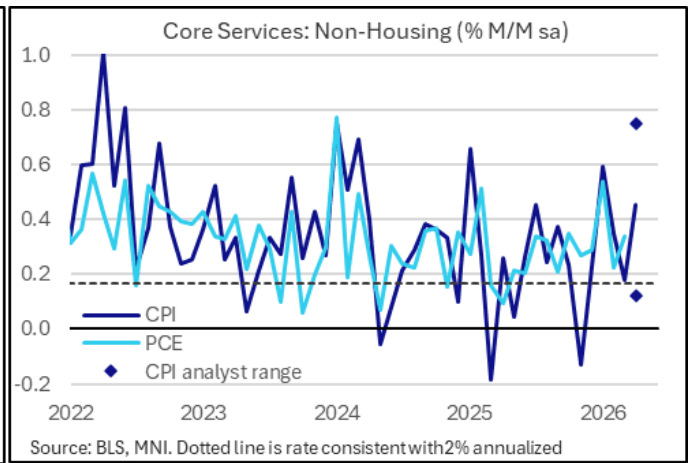
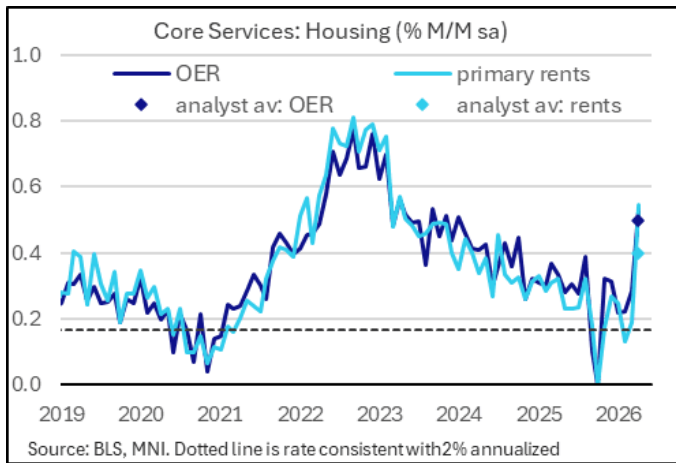
- In turn that was primarily due to the doubling of housing's contribution to core CPI, to 0.23pp from 0.11pp. This was expected given April's methodological quirk that pays back for last October's missing data due to the government shutdown (as was known in advance, BLS made up for the missing month by used the 6th root of the 12-month change in the sampled housing units, as opposed to the typical and smaller 6th root of the 6-month change).
- Outside of that, services printed on the high side: Core services excl OER & primary rents ('supercore'): 0.454% M/M after 0.179% prior, around the middle of a very wide range of expectations from 0.12-0.75% M/M.
- Lodging and airfares, both volatile categories, were the largest contributors to core CPI outside of housing (0.04pp each, with airfares roughly in line but lodging on the hotter side at 2.4% M/M vs expected flat).
- Key categories including medical services (flat for a 2nd consecutive month; The semi-annual health insurance reset saw as expected a lessened drag on CPI, with -0.4% M/M NSA after -1.4%), communications (-0.2% M/M, now down 3 in the last 5 months), recreation (0.1% after -0.4%) and auto insurance (first rise since July 2025 but modest at 0.1% M/M and not a PCE input anyway) were relative non-factors.
- And as noted below, core goods inflation also lost some sequential traction, contributing just 0.01pp to overall core CPI. While used car prices were flat, it was other goods prices that helped the soft inflation tone, with ex-used vehicle core goods CPI rising just 0.04% M/M for a 5-month low. This was helped by categories such as medical care commodities (-0.4% M/M), reflecting the largest drop in nonprescription drug prices since 2020; we did see some pockets of strength in apparel including highest men's shirts/sweaters inflation (3.7% M/M) since 2015 and footwear (1.4%) since 2021, with apparel's overall 0.6% rise above the 0.2% we'd seen expected.

US: Contributions to % M/M Core CPI

	Mar	Apr	chg
Core CPI	0.20	0.38	0.18
core goods	0.03	0.01	-0.02
used cars	-0.01	0.00	0.01
new cars	0.00	-0.01	-0.01
other goods	0.03	0.02	-0.02
core services	0.17	0.38	0.21
housing	0.11	0.23	0.12
OER	0.09	0.17	0.08
primary rents	0.02	0.05	0.03
lodging	0.00	0.04	0.04
medical serv	0.00	0.00	0.00
car insurance	-0.01	0.00	0.01
airfares	0.03	0.04	0.00
other services	0.04	0.02	-0.02

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

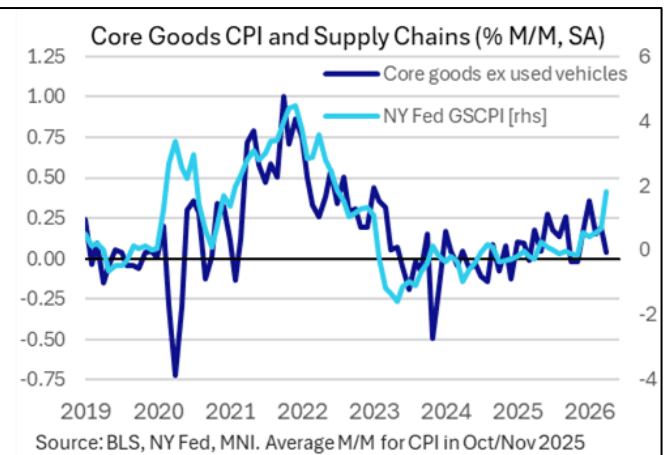
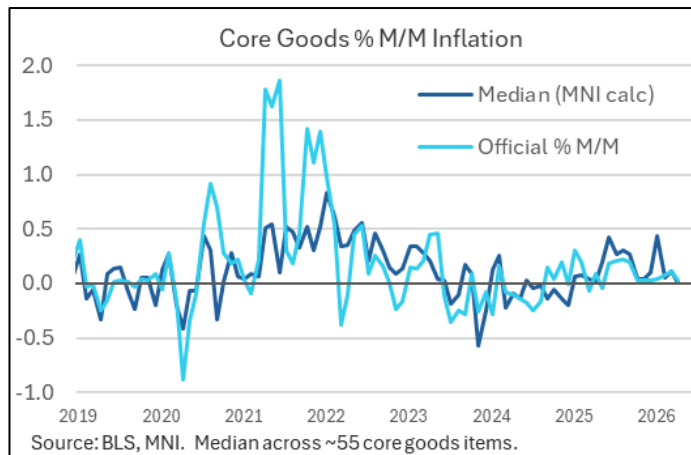
Figures don't always add exactly due to rounding



Core Goods CPI Inflation Surprisingly Subdued In April

Barring apparel, core goods CPI inflation was surprisingly tepid in April and with our estimate of median inflation echoing this. It goes against the NY Fed's Global Supply Chain Pressure Index hitting its highest since mid-2022, although as we noted earlier this did show up in another strong rise in computer software prices although it has a very small weight in CPI calculations.

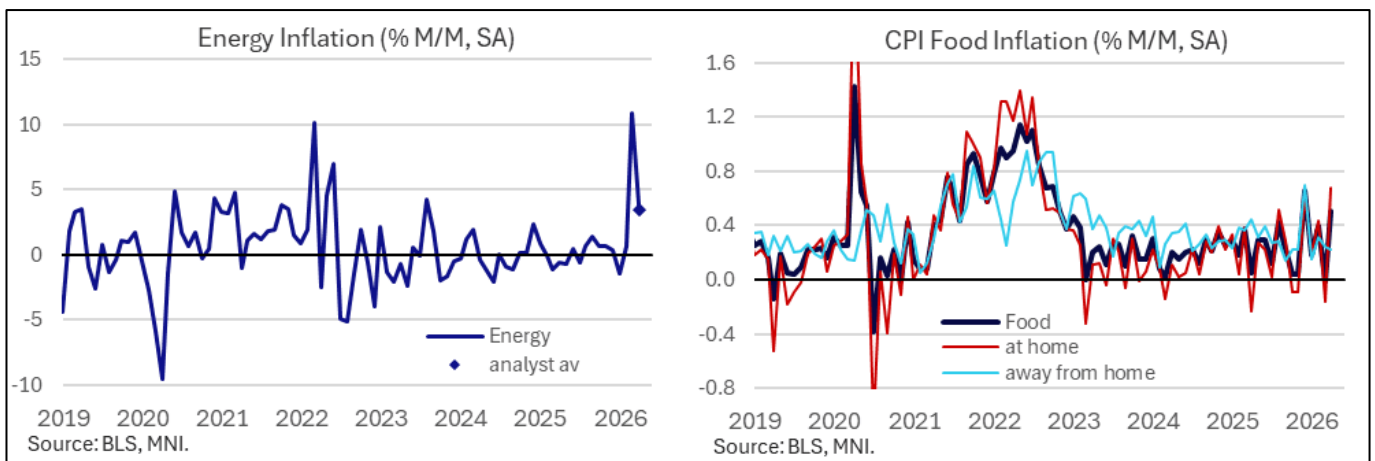
- Core goods inflation was on the soft side in April at just 0.03% M/M (average analyst estimate of 0.2) after 0.11% M/M in March.
- Vehicles played a sizeable role in this softer print, with used cars underwhelming again (0.0% M/M vs cons 0.2 after four consecutive monthly declines) and new vehicles slipped (-0.2% M/M after 0.10% in March).
- In terms of potential continued tariff passthrough, apparel was surprisingly solid at 0.64% M/M (cons 0.2) after particularly solid 1.0% M/M and 1.3% M/M increases in March and February respectively. That has seen apparel prices rise 4.2% Y/Y for its fastest pace since 2022.
- However, our estimate of median core goods inflation suggests broader price pressures were particularly modest with 0.00% M/M after 0.11% M/M in March.
- This median continues a moderation after a surprisingly strong 0.44% jump in January at start of year price resets (whilst many of the detailed series are NSA, it still compared with 0.07% in Jan 2025 and 0.12% in Jan 2026) and the 0.43% M/M back in June 2025 after tariff announcements in the spring.



Energy Dominates Headline CPI Story, With Food Prices A Concern

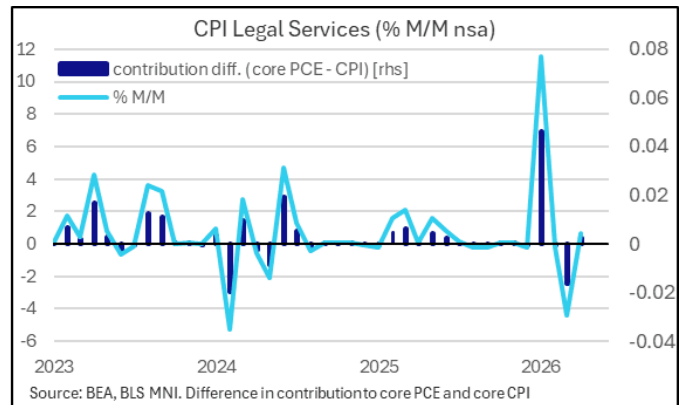
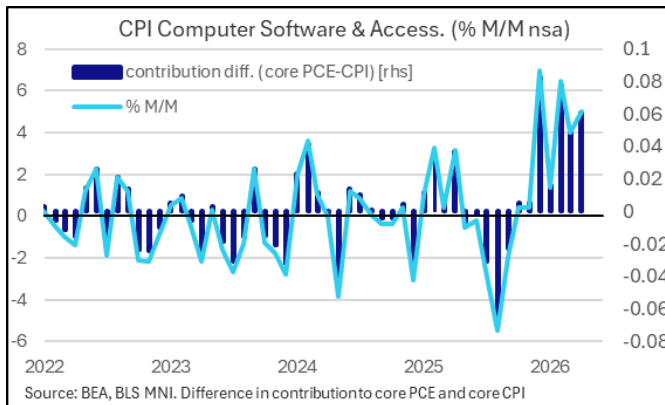
As expected, soaring energy prices amid the conflict in the Middle East continued to punctuate the overall strength in consumer prices in April. Unlike in March, they were joined by food prices which saw notable pickup for grocery inflation in particular.

- Energy CPI inflation slowed to "just" 3.8% M/M after 10.9% in March, with gasoline prices rising largely as expected at 5.4% M/M (21.2% prior) for what is shaping up to be one of the largest short-term price increases in these categories in recent history.
- The 3-month change in the energy CPI index is 15.8%, highest since 2005 amid the disruptions to energy supplies created by Hurricane Katrina.
- Determining the extent of energy passthrough to other categories is not straightforward; the most obvious in the April report was airfares which saw a 2nd 2+% M/M rise (a slightly below-expected 2.7% after 2.8%) though it was difficult to find evidence in other services categories. Ex-used vehicle core goods prices rose just 0.04% M/M, and at least some of that uptick appears tariff, rather than energy, related (eg apparel +0.6%).
- That said, the rise in food prices was notable. The 0.5% M/M rise in the overall food index was the biggest in 4 months, and even that December figure may have been impacted by post-government shutdown data collection effects; to find a higher reading you have to go back to late 2022. And "food at home"'s 0.7% M/M rise was outright the biggest since August 2022. That contrasts with food away from home which decelerated very modestly on an unrounded basis (0.23% M/M vs 0.24% prior for a 3-month low, which looks relatively benign for PCE food services).
- As such there are some signs here that MidEast-related passthrough of energy/transport costs is pushing up food prices. Meats, Poultry, Fish and Eggs prices rose 1.3% M/M, most since February 2025 (despite negative poultry prices; beef/veal prices soared 2.7%) dairy prices rose 0.8% M/M; Fruit/Vegetable prices soared a 4-year high 1.8% after 1.0% in March on a 3.9% rise in fresh vegetable prices. Eggs saw their first monthly price increase (+1.5%) since March 2025.
- Some of this is idiosyncratic: tomato prices jumped 15% M/M for a 2nd consecutive month, though this incorporates tariffs on Mexican imports as well as poor weather having an impact.
- Overall, domestically-produced farm food saw a 0.6% rise M/M, one of the highest in the last 3 years, though this was actually below the overall food at home basket; there may be some hint here of higher costs for importers due to rising fuel charges.
- Fertilizer supplies from the Middle East are also impacted and this may be coming to bear too on food prices, though most analysis we've seen suggests this will only be felt later on.



Another Computer Software Price Jump To Help Keep Core PCE Goods Wedge

- In addition to the detailed breakdown above, computer software & accessories did indeed see another strong monthly increase in April, rising 5.0% M/M.
- It follows 4.0% in March, 6.5% in Feb, 1.4% in Jan and 7.0% in Dec for now a 26% cumulative increase since November.
- As flagged in the preview, this is a tiny category in core CPI but an important one in core PCE and has played a large role in the wider wedge between the two (1.2% of core PCE vs 0.04% of core CPI).
- It will have added ~0.06pps to core PCE in April after 0.05pp in Mar and 0.08pp in Feb compared to essentially zero to core CPI.
- JPMorgan from their preview: we "could see another firm increase. The index includes SD and USB memory devices, whose prices have been surging because of AI-related increases in memory prices. Prices for some of the best-selling products in this category on Amazon saw further price increases in April."
- Another small detail that has been of note in recent months and one that is harder to track is CPI legal services, a series that has to be manually calculated from miscellaneous personal services. It was relatively neutral this month compared to recent swings, with 0.7% M/M after -4.4% in March by our calculations.
- We won't get bogged down in core PCE contributions here because the BEA swapped to PPI input data in March and also January (when we estimated the CPI series jumped 11.6% M/M) but this provides a 0.00pp contribution to core CPI vs the -0.02pp in March.

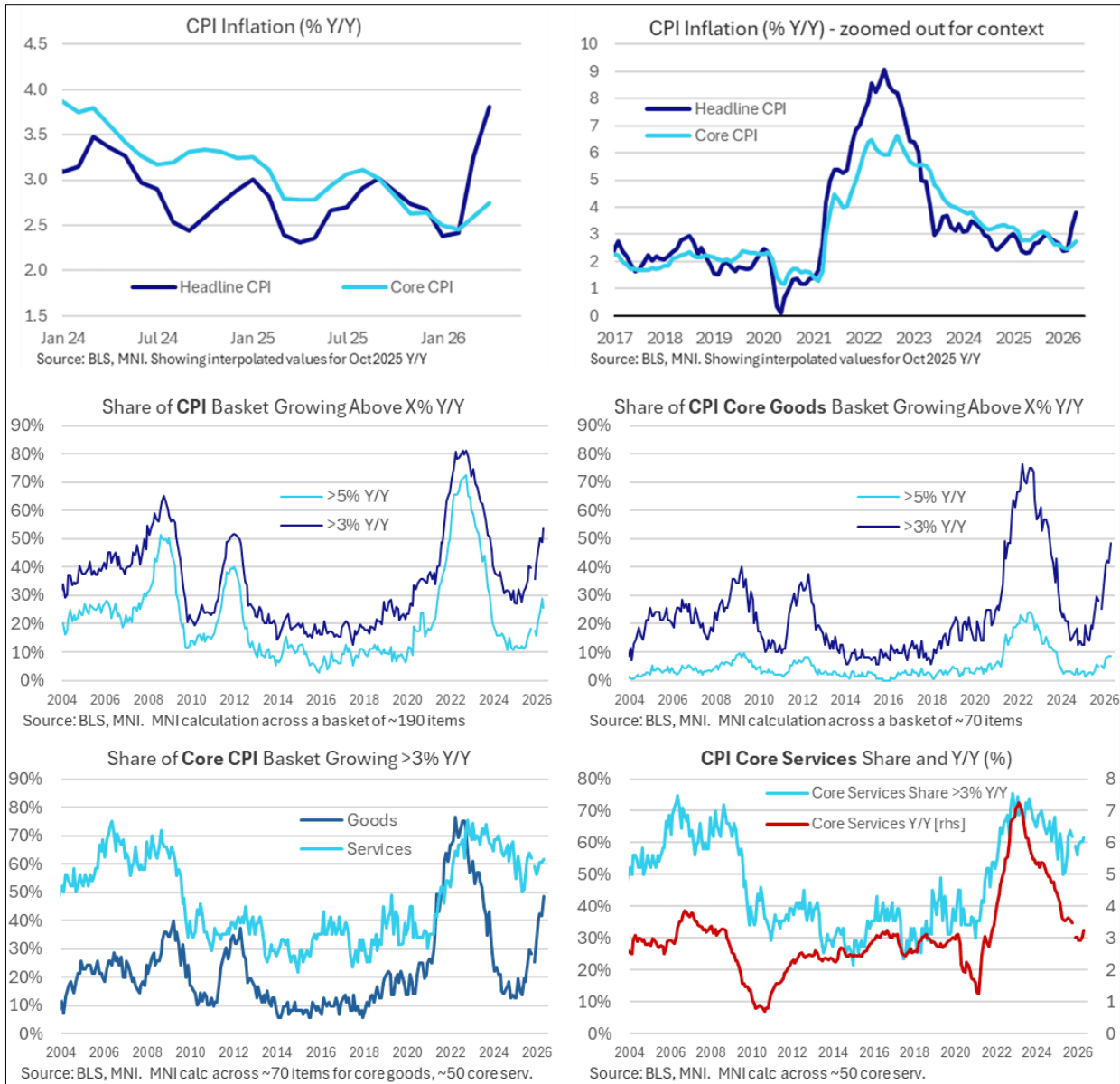


Headline CPI Inflation Highest Since May 2023, Quarter Of Basket >5% Y/Y

Headline inflation has now increased to 3.8% Y/Y (+1.4pp in two months) for its strongest since May 2023 although core CPI at 2.75% Y/Y remains below pre-shutdown levels for now. We estimate 54% of the overall CPI basket increased 3% Y/Y or more in April whilst 26% increased by 5% Y/Y or more.

- Headline CPI and core CPI were stronger than expected in April, less so core, at 3.81% Y/Y (cons 3.7) and 2.75% Y/Y (cons 2.7) respectively.
- Headline inflation has now increased 1.4pp in two months to its strongest since May 2023, after the 2.4% readings in Jan-Feb were the softest since 2.3% in Apr 2025 at lows since early 2021.
- Core inflation meanwhile has seen a much steadier increase from the recent low of 2.46% in February although that was +0.1pp artificially low by handling of rental inflation in the shutdown. Core is still softer than the 3.02% Y/Y seen in Sep 2025 pre-shutdown.
- Dispersion metrics firmed further meanwhile, with 54% of the overall CPI basket rising at 3% Y/Y or faster in April for its fastest share since Aug 2023. It was ~50% in Feb and Mar, 40% in Sep 2025 and averaged close to 20% in 2015-19.
- Whilst this will be reflecting the jump in energy prices (26% of the basket saw at least 5% Y/Y after 29% in Mar vs 18.5% in Sep 2025 and 8.5% pre-pandemic), core metrics are also strong.
 - We estimate 49% of core goods items increased at least 3% Y/Y vs 42% in Mar, 28% in Sep 2025 and 12% in 2015-19.

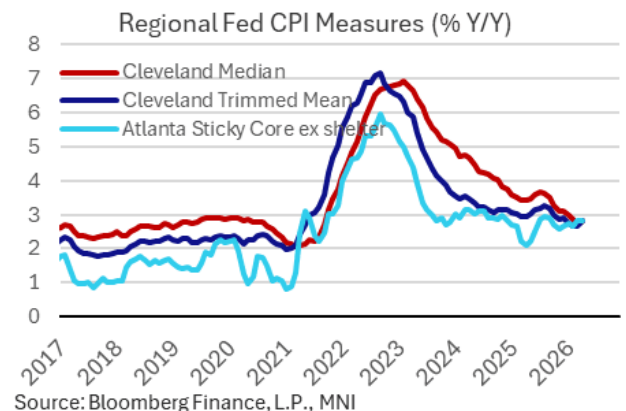
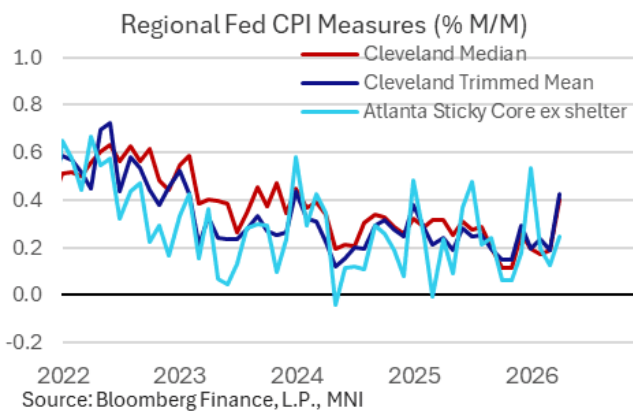
- The core services share growing at least 3% Y/Y meanwhile firmed back to 62% vs 60% in Mar, 62% in Sep 2025 and 34% in 2015-19.



Regional Fed Inflation Metrics Remain Elevated

Regional Feds' analysis of April's CPI report showed a continuation of the pickup in both price "stickiness" and median metrics.

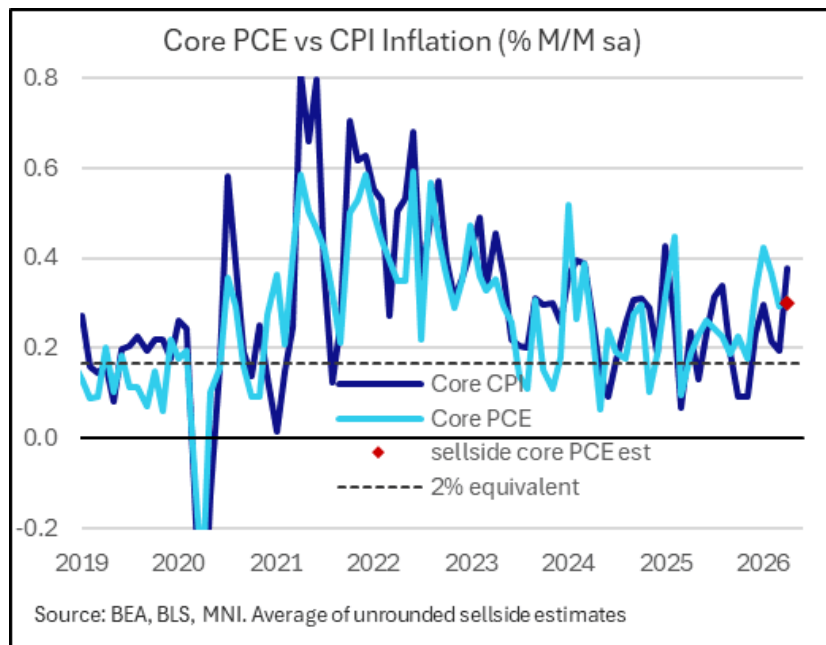
- The Cleveland Fed's median CPI measure came in at 0.40% M/M, while the 16% trimmed mean printed 0.43% M/M - both measures were the highest since January 2024, and kept the Y/Y readings hovering just below 3% (2.80% / 2.83%, respectively).
- Meanwhile the Atlanta Fed's "Sticky" CPI measures remained just that, with the ex-shelter index up 0.24% M/M and 2.82% Y/Y - the latter marking the highest since September 2025.
- Overall, any progress that inflation had made toward 3% now looks to have largely dissipated.



Core PCE Estimates Little Changed Around 0.30% M/M After PPI

Analyst estimates for April core PCE were little changed but mostly lower after Wednesday's PPI report, with the subcomponents seen as having largely mixed implications. With expectations for core PCE after the CPI report having centered around 0.31% M/M, they now appear to be closer to 0.30%, similar to March's 0.29%. In ascending order of current forecast:

- **TD:** 0.26% M/M (was 0.28% pre-PPI)
- **Goldman Sachs:** Calling the PCE implications from the April PPI report "mixed", Goldman estimates core PCE at 0.30% M/M, unchanged vs pre-PPI. They see market-based core PCE at 0.35%, and have upped their estimate for the Dallas Fed's trimmed mean PCE to 0.25% (0.21% pre-PPI).
- **Nomura:** 0.30% M/M (was 0.36% pre-PPI, and 0.29% pre-CPI). "Although airline fares were essentially in line with our expectations, portfolio management and investment advice service prices declined more than we had assumed...Backward revisions to PPI data suggest that core PCE inflation for February will likely be revised up by 3bp and March revised down by 2bp. On net, backward revisions to core PCE inflation in Q1 seem slightly positive."
- **BofA:** 0.31% (was 0.30% pre-PPI). "Components of health care PPI cooled compared to March and portfolio management fees declined, though that should prove short-lived."
- Away from analysts, the Cleveland Fed's nowcast remained at 0.29% after PPI, unchanged from post-CPI (was 0.26% pre-CPI).
- The CPI report saw most pre-existing core PCE estimates revised higher owing to greater core goods strength than the CPI equivalent indicated, although core PCE is still expected to be softer than the 0.38% M/M seen for core CPI owing in sizeable part to the latter's larger boost from a rental inflation quirk.

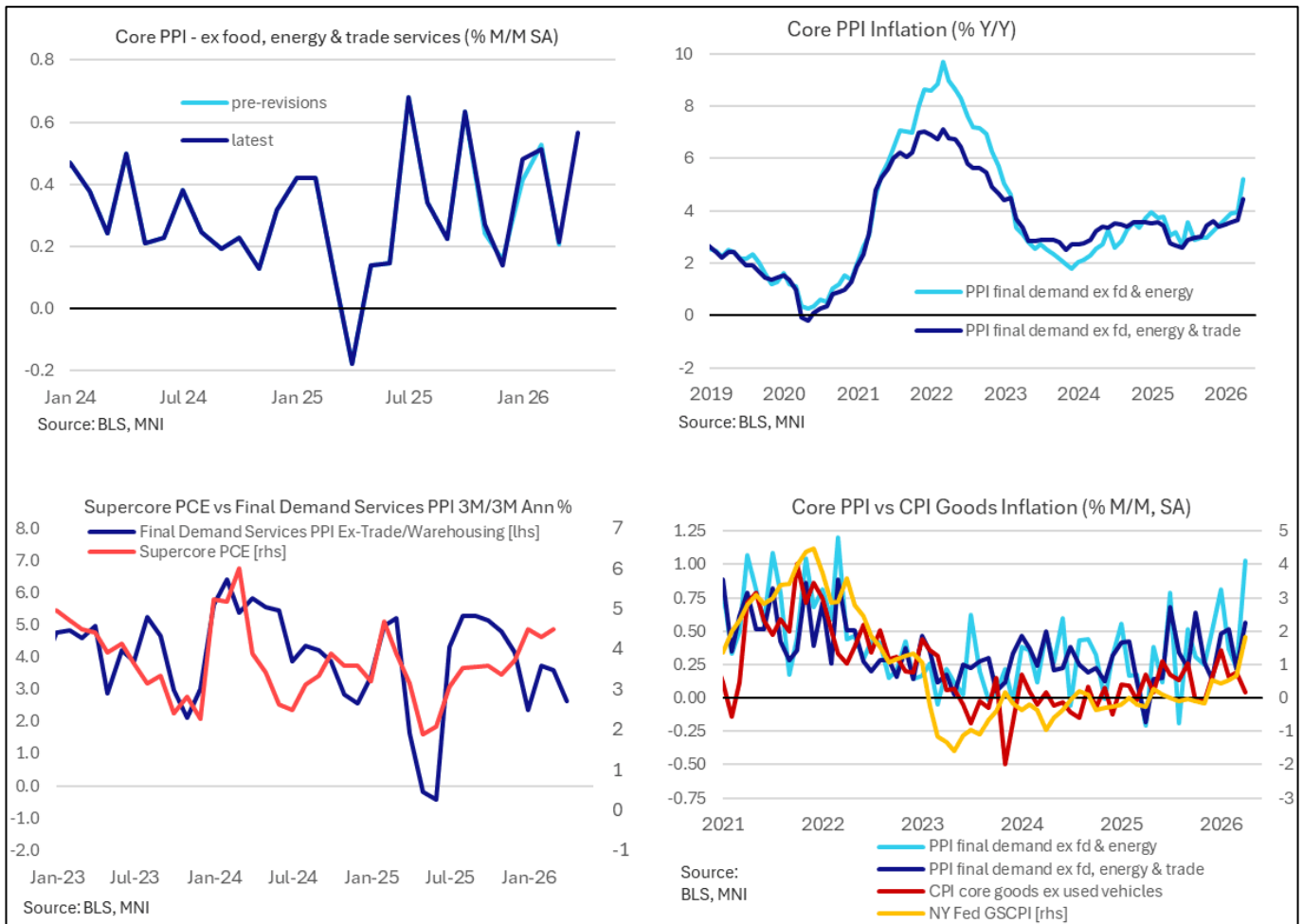


PPI

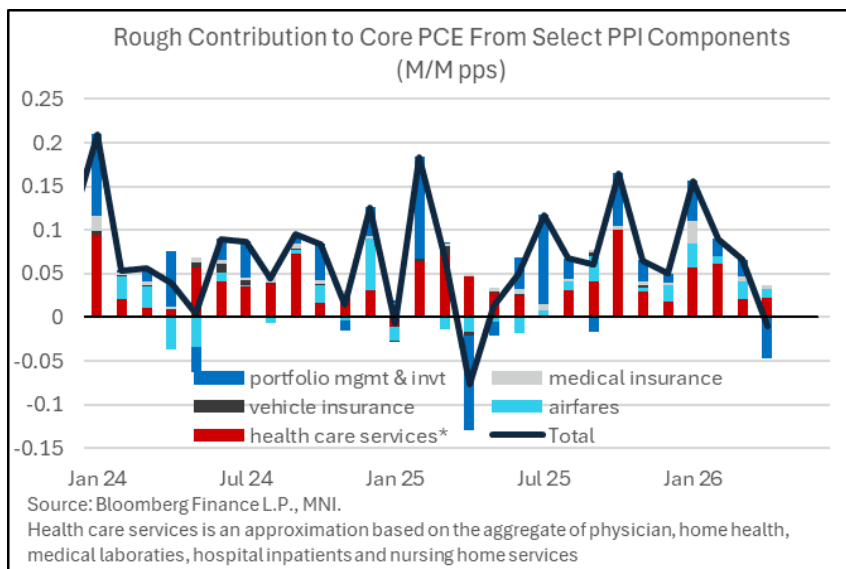
Energy, Trade Services Drive Scorching April PPI Readings

The main inflation gauges in the April PPI report substantially exceeded expectations, with the details not offering much comfort either. The headline final demand PPI came in at 1.4% M/M, well above the 0.5% consensus and with an upward revision to March (0.7% from 0.5%) meant the Y/Y reading jumped to a post-2022 high 6.0% (4.8% expected).

- A large portion of the overall rise was in trade services, meaning that the main core aggregate - ex-food/energy/trade services - was closer to the expected mark at 0.6% M/M (consensus 0.3%) though March was revised up to 0.2% from 0.1% and the core Y/Y gauge rose to 4.4% (4.2% consensus) the highest since Feb 2023.
- Goods PPI was undoubtedly hot, with final demand core goods prices rising 0.7% M/M, on an unrounded basis the 2nd highest figure since mid-2022 and keeping the 3-month moving average annualized rate above 5% (5.4%) for a 4th consecutive month.
- Overall final demand goods rose 2.0% after 1.9% in March, but over three-quarters of that was due to a 7.8% rise in energy prices (gasoline's 15.6% rise was over 40% of the April rise in final demand goods) despite falling residential natural gas prices (as expected). Food prices were actually quite tame, with just a 0.2% rise M/M (-0.6% prior). Finished consumer goods prices ex-food/energy rose a robust 0.5% M/M.
- As for final demand services PPI, the rise of 1.2% M/M was the biggest since March 2022 and well up from 0.2% prior. But the details aren't quite as bad. Trade services, whose rise of 2.7% was the biggest since our historic series starts in 2010, made up two-thirds of the overall rise in final demand services. This category is an imputed figure, calculated via changes in margins received by wholesalers and retailers, so is usually eyed with a bit more skepticism than the "hard" data in most of the rest of the report and ex-trade/warehousing bears a closer resemblance to supercore PCE.
- As such, services PPI may offer a slight relief to the overall inflationary tone of the report: overall final demand services ex-trade was basically flat (0.1% M/M after 0.0%) for a second consecutive month. Services details were overall mixed; per the BLS "the indexes for truck transportation of freight; fuels and lubricants retailing; health, beauty, and optical goods retailing; chemicals and allied products wholesaling; and legal services also moved higher... [Portfolio management prices fell 2.4% and] margins for food retailing and for metals, minerals, and ores wholesaling also decreased."



PPI Report Looks Benign For PCE Readthrough: Airline passenger services airfares rose just 1.0% M/M with domestic up 2.9% (we get the international component from the import prices report), portfolio management -2.4% M/M (right in the middle of estimates from roughly -0.1% to -4.5%), medical insurance +0.3%, but auto insurance and health care services flat. in total it's among the softest readthroughs from PPI to PCE of the last year - see chart.

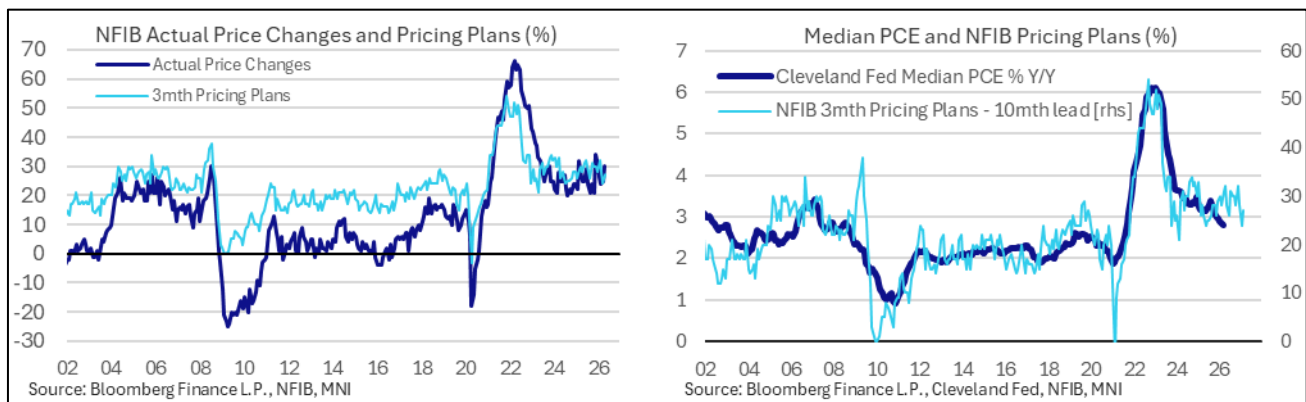


Other Price Related Indicators

Small Business Price Plans Firm Again After Surprise March Softness

Within the April NFIB small business sentiment report, price components firmed after what to us were surprisingly soft March readings. Three-month ahead price plans are still on the lower side for recent years but they continue to point to underlying inflation stubbornly above the 2% target.

- Actual price changes: A net 30% of firms increased prices compared to three months ago vs 25% in March and 24% in Feb.
- Whilst this share remains contained - it recently peaked at 34% in Nov 2025 (highest since Mar 2023) - it's still a much wider breadth of price changes than the 11-12% seen pre-pandemic.
- Planned price changes: A net 27% of firms expect to increase prices over the next three months as it bounced from 24% in Mar for back close to the 28% in Feb.
- The 24% was a joint low with Jul 2024 for the lowest since Apr 2023 and marked a sizeable rolling over having recently peaked at 32% in Jan to match the 32% in Jun 2025 - findings that interestingly match the two strongest months in our calculation of median core goods inflation.
- By bouncing, it sees a shift back away from historical averages of 21-22% in 2017-19 pre-pandemic.

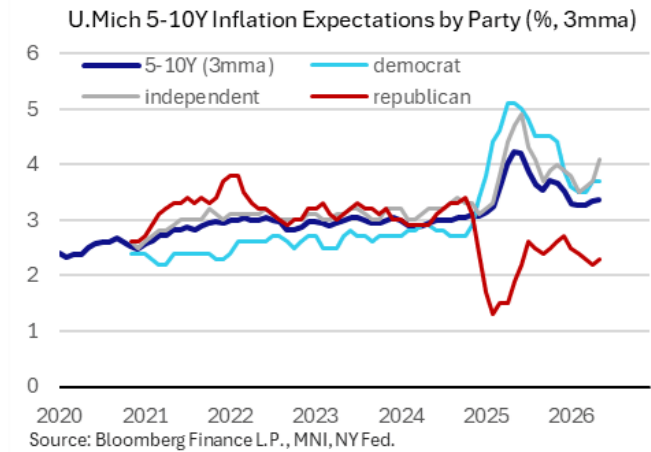
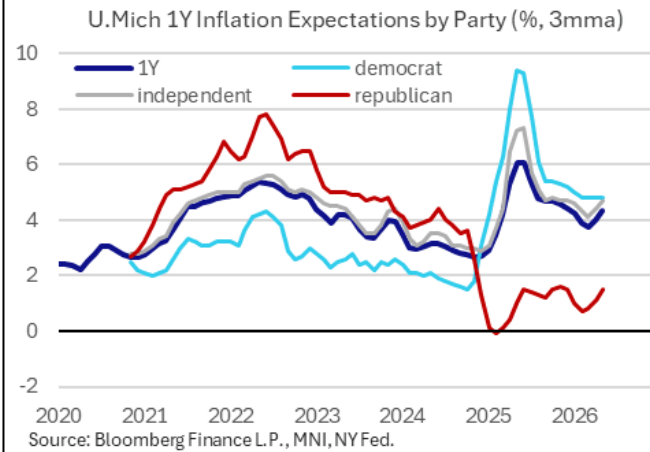
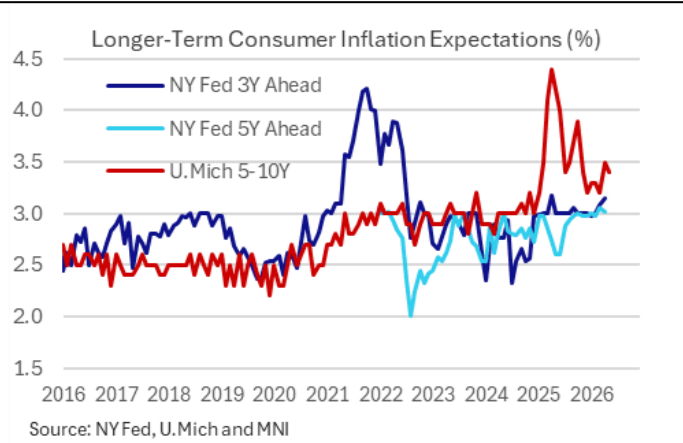
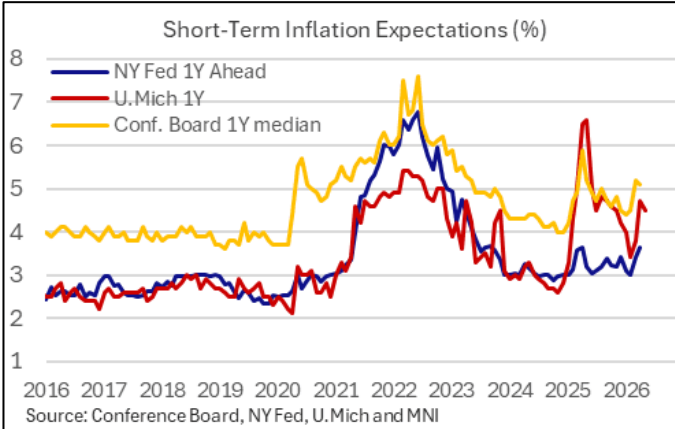


U.Mich Consumer Sentiment Hits Record Low Despite Ease In Inflation Expectations

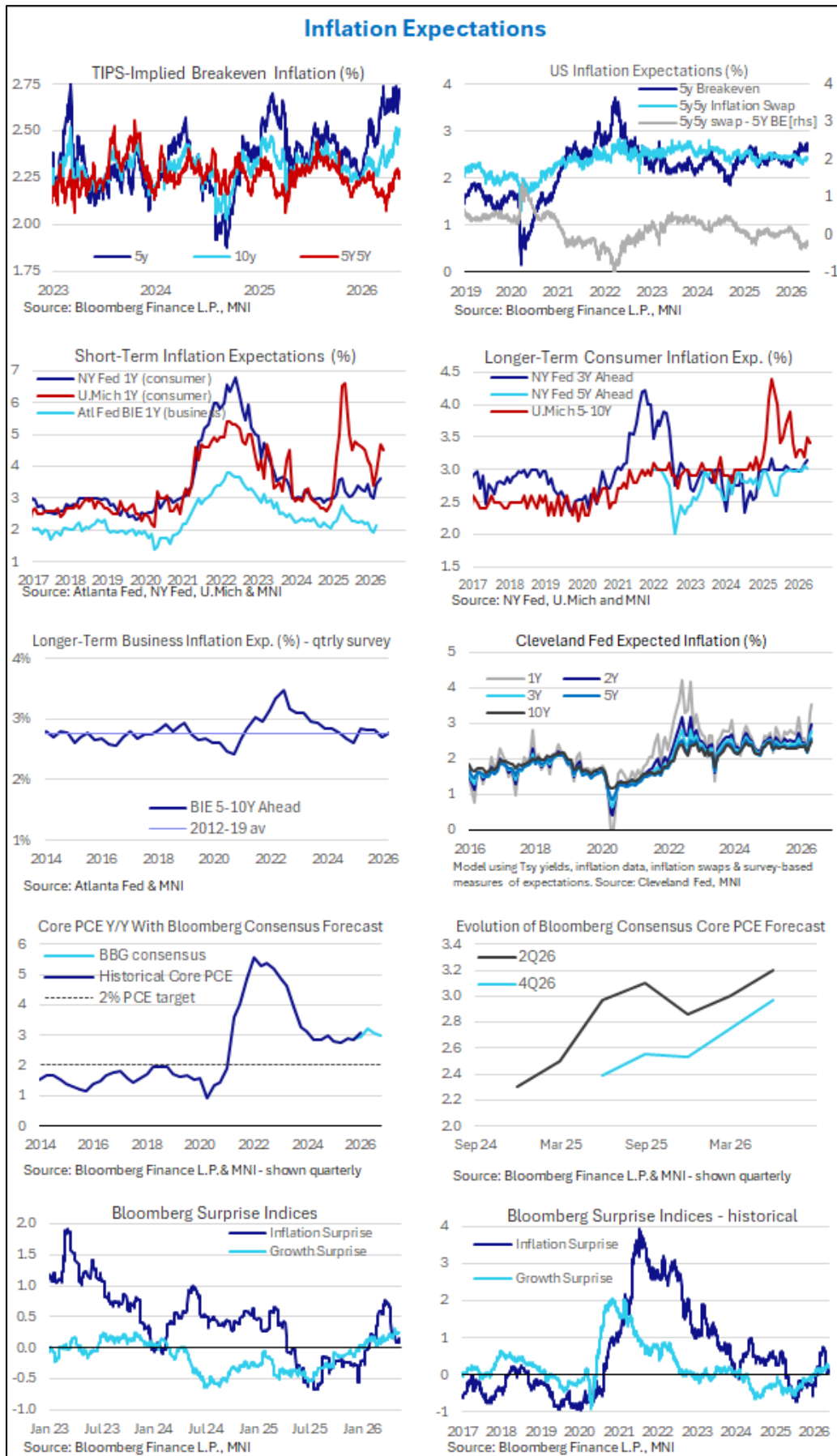
The U.Mich consumer survey saw sentiment fall to a fresh record low in the preliminary May reading whilst consumer expectations underwhelmed as they eased back from April's levels after a swift increase.

- U.Mich consumer sentiment fell to 48.2 (cons 49.5) in the preliminary May reading from 49.8 in April for a fresh record high.
- Current conditions led the monthly decline, falling to 47.8 (cons 52.0) after 52.5 whilst expectations nudged higher to 48.5 (cons 48.2) after 48.1.
- 1Y inflation expectations: 4.5% (cons 4.8) after 4.7%
- 5-10Y inflation expectations: 3.4% (cons 3.5) after 3.5%
- You can see how much more sensitive inflation expectations have been in the U.Mich survey compared to other surveys such as those from the Conference Board and NY Fed (both up to April) in the charts below.
- The preliminary survey ran from Apr 21-May 4, whilst the 577 of responses at this stage was fairly typical. Last month's survey saw 667 in the preliminary report before 1223 in the final vs the record high of 1504 in March.
- From the U.Mich press release: "Taken together, consumers continue to feel buffeted by cost pressures, led by soaring prices at the pump. Middle East developments are unlikely to meaningfully boost sentiment until supply disruptions have been fully resolved and energy prices fall."

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MNI Policy Team Insights

MNI INTERVIEW: US Services Growth Still Largely Intact - ISM

By Evan Ryser (May 5, 2026)

WASHINGTON - The U.S. services sector in April held up well and the expansion is set to continue despite rising input costs, with a surge in AI-related activity offsetting weakness in other areas, Institute for Supply Management services chair Steve Miller told MNI.

"I'm not seeing any signals that say we're slowing down. This is the third month in a row where we've had nine of the 10 sub indexes in expansion territory," Miller said. The PMI "continued to show strength."

The ISM services index eased 0.4 percentage points in April to 53.6, largely meeting expectations. The composition of the report was mixed and it was the lowest reading since November, but still above the 2025 average of 51.7.

"With my view of a greater than 50% chance that we'll see moderate flow of oil through the Strait of Hormuz through the summer, I'm expecting us to be in the mid 50s, maybe 54, 55, 56" on the PMI, he said. "There is a significant risk that we're going to see a higher oil price than USD105 or USD110, unless the shepherding of vessels through the Strait of Hormuz works."

ELEVATED INFLATION

The energy price shock due to the war with Iran kept the prices index elevated at 70.7, the same as last month. That points to a further increase in inflation. (See: MNI INTERVIEW: Fed Is Firmly On Hold For Some Time - Sheets)

"The only time we've seen 70s has been when we've seen high inflation," Miller said. "I don't know how we avoid it."

There was a sharp drop in the new orders measure, by 7.1 points to 53.5 in April. It was the sixth largest monthly drop in the history of reporting the PMI.

Miller didn't express much concern about the drop in new orders, noting the level is back down to its 12-month average. "My inference into the data is that the drop is just related to back to normal ordering after people ordered ahead to try and beat fuel price and transportation cost increases from the increased oil levels."

He said the average monthly reading over the last 12 months is 53.9 and the February and March indexes were 58.6 and 60.6, way above the 12-month average. "It looks like we had some abnormal ordering behavior in February and March, and it's back to normal in April."

The employment index rebounded by 2.8 points in April to 48.0 after having dropped sharply in March. "It's the same story. We're at 48 in employment, versus a 48.6 for the 12-month average," Miller said.

TWO-SPEED ECONOMY

Miller said the U.S. expansion is becoming increasingly bifurcated as demand related to the buildout of infrastructure for AI remains strong while other parts of the economy lag.

"It's two different economies in construction. It's housing and its data centers," Miller said. "Housing is depressed and in data centers it's difficult to keep up."

MNI INTERVIEW: Fed Is Firmly On Hold For Some Time - Sheets

By Evan Ryser (May 5, 2026)

WASHINGTON - The Federal Reserve is likely to keep interest rates on hold for some time, with a higher and more prolonged oil price trajectory making a rise in interest rates more probable, the former director of the Division of International Finance at the Fed Board of Governors, Nathan Sheets, told MNI.

"I think they are firmly, firmly in wait and see mode," he said in an interview after the FOMC last week kept rates on hold for the third straight meeting and outgoing Chair Jerome Powell said the center of the Committee is moving toward a more neutral place.

Sheets said the Fed's March SEP indicating one rate cut by the end of the year remains a reasonable benchmark. "If they cut as they project, it's going to be out a ways, toward the end of the year."

Whether disruption from the Iran war is large, broad, and durable enough to generate widespread supply chain stress is still uncertain, and oil prices would still have to rise, though those odds have climbed, he said. "If you're in that world with USD120 per barrel oil, the probability that the Fed will need to hike this year is substantial. I wouldn't put it over 50% but I'm not sure I would put it a lot below 50% in that scenario."

MAXIMUM OPTIONALITY

Powell flagged last week the central bank could remove its easing bias as soon the next meeting in June. Three regional Fed presidents dissented at the last meeting against the guidance. (See MNI INTERVIEW: Warsh Fed Won't Manage To Ease Soon-Hubbard)

Sheets said rate guidance in June will depend on the situation in the Middle East and oil prices. "It'll depend entirely on what's happening in the Middle East, where the price of oil is, what the inflation data are looking like, and what the economy is looking like. Is it possible? Yes."

"But there's a lot of wood to chop. There's a lot of data that we're going to see," said Sheets, now global chief economist at Citigroup.

By retaining the easing bias in the rate guidance while also seeing several members of the FOMC dissent, Powell is arguably giving Warsh more room for maneuver when he takes over at the Fed's next meeting in June, Sheets said.

"Maybe there's a case here that Powell's giving Warsh maximum optionality for the June meeting," he said. "With this strategy, you make the statement, but then you leave it to the Warsh Fed to decide what they want their bias to be."

BALANCE SHEET TOOLS

Sheets, who was involved in helping establish and manage dollar swap lines with foreign central banks during the Global Financial Crisis, suggested that Warsh's answers to Senate Democrats about such facilities are in keeping with the program's past, while also acknowledging the different roles of the Treasury Department and the Fed.

"Treasury is the senior partner on international affairs in the US government, senior partner for U.S. economic affairs. The other paradigm is that the swap lines are tied critically to U.S. monetary policy," he said. Warsh's answers also flagged to senators his intent to review monetary policy implementation, including IORB and the ONRRP facility.

"He does want to move to a smaller balance sheet, and there are mechanisms to achieve that smaller balance sheet, but it will require further fleshing out some of the existing tools like the standing repo facility," Sheets said. "I see as a critical part of being able to reduce the size of the balance sheet."

MNI INTERVIEW: US Manufacturing Nears Tipping Point - ISM

By Evan Ryser (Mar 1, 2026)

WASHINGTON - The U.S. manufacturing sector has been resilient in the face of the Iran war supply shock but is closer to a point where higher prices will bite and uncertainty drag on demand, Institute for Supply Management manufacturing chair Susan Spence told MNI Friday.

"If the war ended tomorrow, we'd have lingering prices for a bit, but it would be over pretty quick," she said in an interview. "If we don't start to see movement toward something other than a temporary ceasefire, I think we're going to erode this PMI above 50."

The ISM manufacturing index was steady at 52.7 in April, somewhat below market expectations. The April reading matching the best reading since 2022 was also the fourth straight monthly figure above 52, after failing to reach that level for over two years. The tone of respondents' comments, however, was less positive.

"If we're sitting here in the middle of the summer and we've got no end in sight with respect to the war, I do worry about that tip forward," Spence said.

INFLATION

The prices index surged again in April, up 6.3 points to 84.6, the highest reading since April 2022. There were 46 commodities reported up in price, up from 24 in March.

The ISM price gauge was rising even before the Iran war, suggesting prices pressures are more widespread than just the supply shock from the Middle East, Spence said.

"They were rising precipitously by the time that started. Having said that, my feeling is that if there is a swift end to the war I think that's going to correct itself within a few months, but the fact it was rising before that concerns me overall. I don't think we can blame it all on that," she said.

The Federal Reserve may need to act to ensure that prices are on track to reach the central bank's 2% inflation target, Spence said. "If the unemployment rate is largely steady, then I could potentially see a hike in their future because people can't stand these inflation rates." (See: MNI INTERVIEW: Warsh Fed Won't Manage To Ease Soon-Hubbard)

EMPLOYMENT

The new orders measure inched up to 54.1, while the employment figure softened to 46.4, well below 50 but slightly above the 2025 average. There were 1.7 comments on reducing head counts for every one comment on hiring, a weakening from the 1.2 to 1 ratio in March.

Spence doesn't think that AI adoption is a reason for the contraction in manufacturing employment, which has been below 50 for 31 straight months. "Our panelists in December said their AI adoption is not very big right now. They're thinking about it. They're planning for it, but most folks just weren't doing anything yet."

"I am actually a little relieved that the PMI didn't deteriorate more given the events of the last six weeks. Although, while I try to be optimistic, I think I'd feel better if new orders were up more," Spence said.

"Expansion was muted a bit because we have had all these incredible price shocks on top of kind of shaky sentiment."

MNI INTERVIEW: Warsh Fed Won't Manage To Ease Soon-Hubbard

By Pedro Nicolaci da Costa (May 1, 2026)

WASHINGTON - The Federal Reserve's incoming chair Kevin Warsh would have a tough time convincing an increasingly hawkish FOMC to go along with rate cuts at a time when a large energy shock is creating fresh fears of inflation, former White House Council of Economic Advisers Glenn Hubbard told MNI.

"It would be hard to believe that the Fed could cut rates immediately given all the obvious pressures on inflation and the fact that the real economy is still fairly solid," said Hubbard, who served in the CEA alongside Warsh before he became a Fed governor.

Warsh has previously hinted that he would back lower interest rates by touting the prospect that strong AI-led productivity could allow for more non-inflationary growth. But Hubbard thinks the outlook is more nuanced, while the conflict in Iran has added to uncertainty.

"Eventually, yes, the AI boom is, of course, a productivity boom, and it's probably disinflationary. In the near term, AI is adding a lot to aggregate demand, data centers and hard capital build out, that's going to put upward pressure on the real interest rate and possibly inflation. You have to be a little bit careful. Any story about AI shouldn't be an argument for cutting rates now," said Hubbard, now a professor at Columbia Business School.

He said mission number one for Warsh as he rejoins the central bank will be to develop a strong rapport with the institution and its many layers of staffers.

"The first step for Warsh will be to build relationships with other governors and members of the FOMC. Sometimes people forget the chair is not a king. It's a consensus organization. And as part of that, I think he'll have to have a theory of the case, if you will, for the short run, the medium run and the long run," said Hubbard.

"The only argument for cutting rates in the near term would be if you thought the economy had weakened markedly and inflation is behaving. But neither of those seems true."

The Fed this week held rates steady but three Fed presidents dissented against the statement because they thought language that is perceived as an easing bias is no longer appropriate. (See MNI INTERVIEW: Fed Hawks Right To Focus On Inflation - Harris)

BALANCE SHEET

As to the Fed's large balance sheet, of which Warsh has been a long-time critic, Hubbard also does not expect immediate drastic action.

"It would have to be gradual, more complicated than whether you want the Fed to have a big or small balance sheet. There's two discussions that get conflated. One is, as Warsh put it in his testimony I think, is staying in your lane, not having too big a footprint in the economy, I appreciate that. And we also have a lot of regulations that have neutered the ability of private market makers to maintain liquidity in the Treasury market," he said.

"I think you'd have to go pretty slow on shrinking the balance sheet and at the same time, maybe make regulatory changes to bring those market makers back. So I wouldn't expect him to make any radical changes."

COMMUNICATIONS

Hubbard strongly supports the changes to communications that Warsh has called for, he said. (See MNI POLICY: Warsh Could Reshape Fed On Rates, Communications)

"I'm 100% with him on both the dot plot and forward guidance. I don't think they've served the Fed well. I also think that communications need to be more coordinated," said Hubbard.

"I think we've had entirely too much discussion in the open from other Fed officials, policy disagreements. I think the Fed needs more discussion inside the room, but less discussion outside the room."

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