ASK THE **ADVISERS**

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Will Interest Rates Fall Soon?

The latest CPI report that was released on Wednesday, May 10th showed inflation slowing for the 10th consecutive month. Consumer prices increased 4.9% from a year earlier, down from 5% in March and a 40-year high of 9.1% last June, according to the Labor Department's consumer price index. That's the smallest yearly increase since April 2021.

The Federal Reserve has been aggressively raising short-term interest rates to cool inflation. Upon the release of the CPI report, short-term interest rates immediately fell. Why?

In anticipation of the Federal Reserve starting to reverse its plan of raising short-term rates. Once the Fed believes inflation is on its way back to manageable levels of about 2% it will start lowering short-term rates which, according to fed funds traders, there is a 34.5% chance that a 0.25% rate cut could come as early as July.

A decrease in inflation to normal levels will be welcomed by most consumers, especially those who are living on a fixed income. Although future additional price increases are expected to slow, the higher prices which we are now experiencing aren't going to revert to pre-inflation levels. For instance, those who retired before 2000, have seen the purchasing power of their benefits drop by 36%.

Although social security does come with inflation increases which were 5.9% in 2022 and 8.7% in 2023 (and projected to be 3.1% in 2024) the purchasing power of social security benefits have not fully kept up with inflation. According to the Senior Citizens League, between 2000 and 2023 the cost of goods and services purchased by the typical retiree rose by 141%, whereas one's social security payments would have only increased by about 78% during that same period.

For those who are who are in or near retirement with a normal remaining life expectancy, it is critical to make sure that your retirement plan provides for an annually increasing stream of retirement income that can allow you to keep up with the inevitable impact of inflation.

*CNN

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