# Federal Reserve Grapples with High Interest Rates and Inflation Dilemma in the US



Federal Reserve officials are managing a challenging economic scenario related to inflation and interest rates in the United States. According to data released by the Commerce Department, the Personal Consumption Expenditures (PCE) Index, the Fed’s preferred measure of inflation, showed no significant change in April, maintaining a 2.7% increase from the previous year. Excluding volatile food and energy costs, core PCE rose by 2.8%, only slightly reduced from March's rate.

In response to persistent inflation, the Federal Reserve has maintained high interest rates, the highest in over two decades. Central bank policymakers have stated they will not cut rates until they see consistent movement toward their 2% inflation target. Housing costs, particularly rents and imputed rent for owner-occupied housing, are major contributors to the current inflation levels. These shelter costs climbed by 5.6% over the past year, influencing a substantial portion of the overall PCE index.

Meanwhile, U.S. stock markets experienced declines on Monday, with the Dow Jones Industrial Average dipping 300 points, the S&P 500 decreasing by 0.3%, and the Nasdaq Composite slightly rising by 0.1%. This downturn followed weak data from the Institute for Supply Management’s manufacturing index, which reported contraction in the U.S. manufacturing industry.

Concerns over long-term high interest rates have also been fueled by the latest gross domestic product (GDP) figures, showing the economy grew at an annualized rate of 1.3% in the first quarter of the year, down from an initial 1.6% estimate. Investors are wary that prolonged high rates could slow economic recovery, although some experts like Keith Lerner of Truist believe the economy is normalizing rather than heading toward a recession.

The Federal Reserve now faces the tough decision of whether to maintain high rates to control inflation or reduce them to stimulate housing construction and economic growth amid rising shelter costs.