The Fed concludes its two-day meeting this afternoon and while no changes to rates were expected coming into the week, the deluge of data we’ve received over the past two days probably adds to that opinion. From retail sales to PPI to business inventories to real average weekly earnings, they all paint a picture of an economy taking something of a breather and not one moving into higher gear. Those data points will surely be noted by the Fed and while the latest economic reports won’t be the deciding factor for not hiking rates today (that was already decided) the latest data could well impact the sentiment expressed in the statement.

The February CPI series was just released and came in a touch hot with Core CPI (ex-food and energy) increasing 0.3% MoM and 2.3% YoY, both 1/10th above expectations (see graph below detailing various YoY core inflation measures). Overall CPI printed a decrease of ~0.2% for the month and 1.0% YoY. In a companion report, real average hourly earnings increased only 0.6% YoY versus 1.1% in January thus keeping the wage-push inflation crowd at bay as modest wage gains are being offset by the increasing core inflation trend. All-in-all the CPI series adds to the odds of a June rate hike as they currently stand at 57% versus 53% yesterday for a June hike. Treasuries are selling off a bit on the CPI report with the 10-year off 4/32nds in price to yield 1.98% but the action is muted and will continue to be until the Fed’s 2pm EDT rate decision (more on that below).

One of the big takeaways from the January FOMC meeting was that the statement refrained from characterizing the economic balance of risks given the intense equity sell-off and financial volatility that was ongoing both domestically and globally. Subsequently, equity markets recouped most of their ugly January losses and credit spreads partially recovered from the fear-based widening that took place in January and early February such that the de facto tightening abated somewhat. So, while equity and credit markets are in a far better place than when the January meeting took place, year-to-date equities are still in the red and credit spreads are still wider and financing conditions tighter compared to when the year began.

It’s for those reasons we think the Fed will note improvement in financial conditions since the last meeting and characterize the risks to the economic outlook as more balanced but with lingering uncertainty. They are likely to attempt to weave a fairly neutral or balanced statement that doesn’t undermine the recovery in risk assets since mid-February but keeps a rate hike in June a possibility. As for the fed funds forecast, they will most likely cut one of the four expected rate hikes from the December forecast to three for 2016. That would imply a June, September and December hike. While the market is expecting just two hikes in 2016, a downshift by the Fed to three would likely be greeted as on-the-money given the Fed’s persuasions to be overly optimistic. Adjustments to reality may come, but they come slowly. We’ll be back later this afternoon with a recap of the FOMC meeting, updated economic projections and rate forecast.

Circling back to the retail sales report from yesterday, it wasn’t just that sales for February were mediocre. Aone that could have been shrugged off, but the so-so month was compounded by the prior month’s previously reported gains that were revised to declines that call into question the narrative that the consumer is ready to shoulder more spending which would propel economic growth in the first quarter of 2016. The 0.1% decline in purchases followed a revised 0.4% decrease in January that was originally reported as a 0.2% gain. Sales excluding autos and gas rose 0.3% in February but January’s originally reported gain of 0.4% was revised to a decline of -0.1%. January revisions were broad-based as well with big downward adjustments impacted sales of electronics and appliances, building materials, personal-care items and department-store merchandise. In February, eight of 13 major retail categories showed declines, indicating that growth was also broad-based. Core sales, the figure used in GDP calculations, which excludes autos, gasoline stations and building materials, were unchanged last month after a revised 0.2% increase in January (revised down from an initially 0.6% gain). The Atlanta Fed updated its GDPNow model with the latest retail sales numbers and now calls for first quarter GDP to be 1.9%, down from a 2.2% prior forecast.