

Inflation's Good News, Worrisome Trend

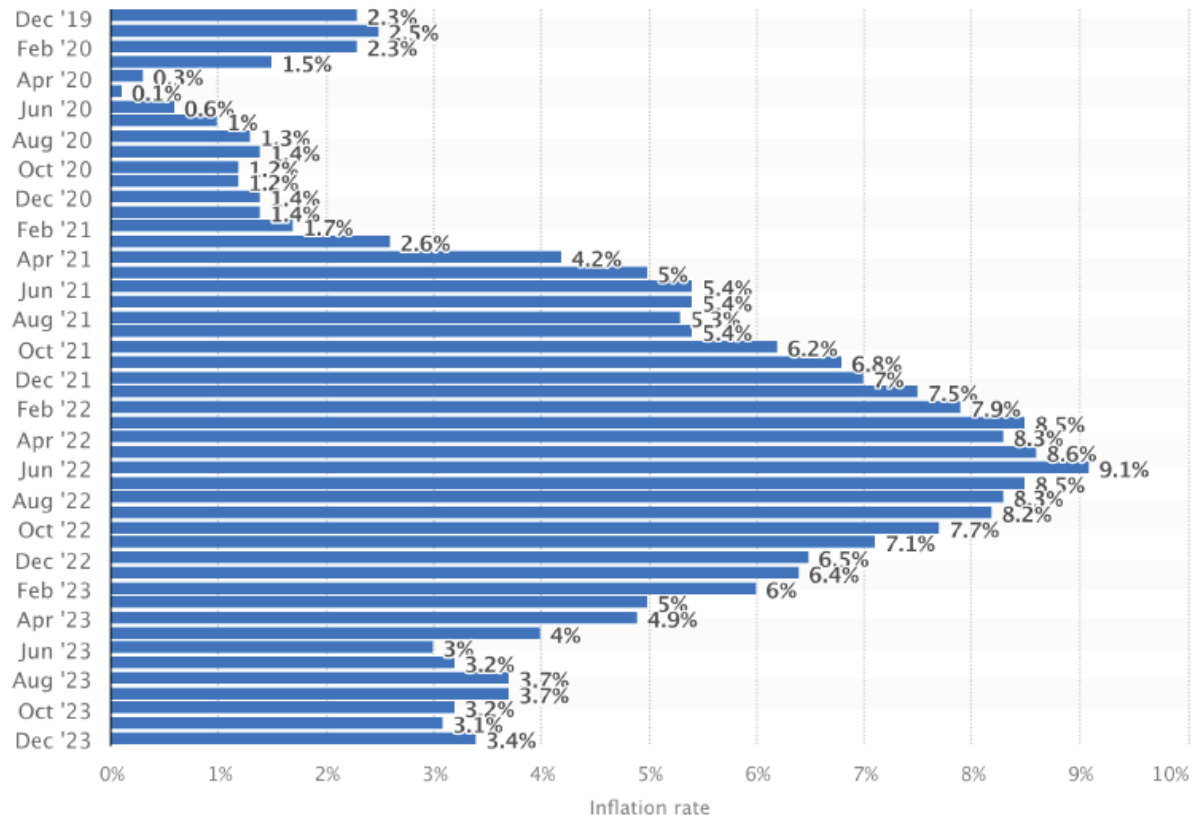
When Federal Reserve Board economists kept insisting that 2022's inflation levels were 'transitory,' it sometimes elicited derisive laughter from reporters. But it turns out they were right. As the Covid pandemic eased and supply chain problems were worked out, inflation fell from 9% back down to more normal levels, even as wages and interest rates (normal drivers of inflation) ticked upward.

Now that the December inflation numbers are in, the picture looks even better. The Fed looks most closely at the 'core personal consumption expenditures' price index, which tracks what households are actually spending, and by that measure, the inflation rate is running at 2.9%.

The more widely followed Consumer Price Index came in at a 3.4% inflation rate for all of 2023. The chart that follows shows the Covid decline (when everybody was hiding in their homes) and then the subsequent bulge when it became difficult for imported goods to get to market—and you can see inflation's gradual retreat since the middle of 2022 as all of this got sorted out.

But you might notice that the rate has remained fairly steady for the past year, suggesting that price increases have settled in at somewhat higher levels than the 2%-2.5% historical numbers. That means that the Fed might eventually decide to give interest rates another nudge upward in hopes that that a higher Fed Funds Rate will slow down spending enough to bring us back to the longstanding 2% inflation target. Nobody knows if or when that will happen, or what inflation might do to surprise us in the coming months, but for now it appears that inflation is no longer wildly out of control.

Monthly 12-month inflation rate in the United States from December 2019 to December 2023



Sources:

<https://www.advisorperspectives.com/articles/2024/01/28/feds-preferred-core-inflation-gauge-slows-below-3-rate>

<https://www.statista.com/statistics/273418/unadjusted-monthly-inflation-rate-in-the-us/>

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