Weekly Commentary

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Inflation still lukewarm

For many years now, waiting for inflation to rise to an acceptable level has been akin to the watching that pot of water sitting on the stove come to boil: it hasn't happened. The Federal Reserve, tasked by Congress to maintain price stability, has long established it would like to see 2% inflation as measured by personal consumption expenditures (PCE index). The recent revamping of its approach to monetary policy has put even greater emphasis on this goal. Policymakers have said they will now allow inflation to exceed that number temporarily—the equivalent of leaving the kitchen and not returning until the water bubbles over.

So far, inflation seems be at least simmering. Year-over-year, PCE (core) rose to 1.6% in August from April's 0.9%. But we all know the jump is from catastrophic disruption due to Covid-19. It remains under the reading of 1.9% in February. The other gauge of inflation, the consumer price index (core CPI) is now at 1.7%. While that is up from 1.2% in both May and June, it's down from 2.4% in February (this number has occasionally exceeded 2%, but it is, again, the Fed favors PCE). Retail sales are improving, but it likely will take much time for demand to rise enough to raise prices. We should eventually get there, but don't spend time waiting by the proverbial stove for it to happen.

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