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Weekly Commentary

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A fork in the road

The Federal Reserve hasn't yet divided into groups of hawks and doves on monetary policy, but officials might be falling into camps based on how much staying power they think inflation has.

Reading between the lines, as one has to do with the Fed, the minutes from the September Federal Open Market Committee (FOMC) meeting (released last week) seem to indicate more discussion about whether price pressures are temporary or not. Both staff and FOMC members concluded that recent inflation data reflected "transitory" factors. But a divergence has arrived: "Some participants expressed concerns that elevated rates of inflation could feed through into longer-term inflation expectations of households and businesses."

The numbers would seem to be favoring that group as the Consumer Price Index (CPI) rose 5.4% year-over-year (y/y) in September. That's a return to June and July's pace, which was the highest since 2008. Also, core CPI increased 4% y/y and the core Producer Price Index rose 6.8% y/y. Lastly, retail sales were strong in September and wage inflation may be on the way.

The compromise for policymakers seems to be the agreement to taper Fed asset purchases, likely to begin before the end of the year.