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Weekly Commentary

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The plot thickens

This week's Federal Reserve policy meeting got a little more interesting last Thursday. The Bureau of Labor Statistics said that the consumer price index (CPI) rose 5%, a number not unexpected, but certainly adding more fuel to the fire that the U.S. recovery is getting too hot. It's the fastest pace in nearly 13 years.

The narrative remains that, as more and more people are vaccinated and they look to spend some of the money they have saved or received from stimulus, expenditures will upset supply/demand leading to a spike in inflation. We know the Fed thinks the scenario is short-lived and that supply chain bottlenecks will be resolved, and it may very well adjust its long-range predictions. What will the dot plot released at the Federal Open Market Committee meeting this week tell us? Will we get a better idea of when it might start to taper asset purchases? Dare we hope it moves the rate liftoff earlier?

The labor market might make more of a difference to policymakers than inflation. Initial claims for unemployment pay keep falling, as does the unemployment rate. And the Job Openings and Labor Turnover Survey (JOLTS) released last week, hit a record high of 9.3 million openings in April. How much longer can the Fed keep a straight face when it says all is well?

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