FLORIDA PRIME™

Weekly Commentary

JULY 19, 2021

Paige Wilhelm
Senior Vice President
Senior Portfolio Manager
Federated Investment Counseling

More than 'transitory'

Last week, Jerome Powell added a new term to describe the recent spike in inflation. The Federal Reserve chair and his colleagues have been referring to it as "transitory," underpinned by their stance that larger disinflationary forces will eventually overcome the present bump due to the economy reopening. But at his semiannual trip to Capitol Hill to report on Fed policy to Congress, he called it "unique." At his hearings he said, "This particular inflation is just unique in history. We don't have another example of the last time we reopened a $20 trillion economy with lots of fiscal and monetary support."

His remarks were close to admitting that the Fed might be wrong about how temporary inflation's rise actually might be. While they think the bottlenecks in supply chains will resolve themselves, he knows that the uniqueness of this point in time—a massive recovery after a massive recession—holds too many unknowns. "We won't have to wait a tremendously long time, I don't think, to know whether our basic understanding of this is right." The summer is not an easy time in a typical year to judge the course of the economy as vacations and summer jobs can skew data. That adds to the uncertainty. But it is good to know that the Fed is truly listening to the growing din of prices grinding higher. The Federal Open Market Committee meeting in late July will offer more insight, though we don't expect an announcement that the Fed will start to taper asset purchases.

G40461-19 (7/21)