

## Where's the Hyper-Inflation?

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If we had a dollar for every time we've heard about the threat of hyperinflation, we'd probably have enough money to never worry about it.

The Federal Reserve's balance sheet has ballooned to an unprecedented size. In August 2008, the balance sheet was \$870 billion. Today, after Quantitative Easing I, II, and III, it stands at \$4.4 trillion. Between 1995 and 2008, the balance sheet expanded at a 6% rate. If it had simply continued to grow at this pace, it would be about \$1.3 trillion right now.

This expansion in the Fed's balance sheet led to a proliferation of forecasts for hyperinflation. We don't have to tell you who they are; you've probably seen their videos on the internet multiple times already. And yet, here we are, with the consumer price index down 0.1% from a year ago. Excluding energy, the CPI is up just 1.8% in the past year.

Of course, certain items have gone up faster. Beef and veal prices are up 13% from a year ago, but make up only 0.6% of the typical consumer budget. And we're sure government statisticians sometimes miss minor changes to packaging that can hide inflation. But the statisticians also have a tough time measuring the true value of improvements to cell phones and other high-tech devices as well. Streaming radio, free maps, and GPS everywhere are nearly impossible to value.

In other words, the inflation data from the government aren't perfect, but we think offsetting errors leave them very close to the truth. In other words, hyperinflation fears were totally overblown and are likely to remain that way.

The huge expansion in the Fed's balance sheet has been due to the Fed's purchase of trillions in bonds. This pumped cash into the banking system, which the banks have chosen to hold as excess reserves. Banks are sitting on these excess

reserves, not because rates are low, but because the economy has not demanded all this cash. In other words, the money multiplier has fallen sharply.

Another way to think about the situation is to imagine that you're heating your house and have the furnace cranked up to the max; it's pumping out as much heat as it can. But you also have the windows wide open and it's only ten degrees outside. Normally, if the furnace is working that hard, you're going to heat and then overheat your house. But, with the windows open, the temperature doesn't rise much.

Higher capital standards for banks, Dodd-Frank, stress tests, and the threat of "macro-prudential" regulation are like open windows. No wonder GE wants out of the banking business. At the same time, a large increase in government redistribution, which can weaken the incentive to work and invest, just like higher tax rates is also holding the economy back. Note: none of these policies look likely to change much anytime soon. However, banks now have excess capital to go along with their excess reserves. In recent months, both the M2 measure of money and bank loans have started to accelerate. And don't forget that companies have lots of cash, too.

All this is to say that "liquidity" is plentiful, while at the same time, these open windows are keeping inflation subdued.

We understand the temptation to believe in doom and gloom. The Panic was painful. But, the comparisons of the US economy today, to 1937, to Japan, or to the Weimar Republic, are entirely too simplistic.

The bottom line is that the Fed is accommodative; the heater is cranked up. But the economy is flexible and resilient. Hyper-inflation and deflation are not in the cards. Carry on.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
4-28 / 9:00 am	Consumer Confidence – Apr	102.3	<b>103.5</b>		101.3
4-29 / 7:30 am	Q1 GDP Advance Report	1.0%	<b>0.7%</b>		2.2%
7:30 am	Q1 GDP Chain Price Index	0.5%	<b>0.6%</b>		0.1%
4-30 / 7:30 am	Initial Claims – Apr 26	290K	<b>288K</b>		295K
7:30 am	Personal Income – Mar	+0.2%	<b>+0.3%</b>		+0.4%
7:30 am	Personal Spending – Mar	+0.5%	<b>+0.4%</b>		+0.1%
8:45 am	Chicago PMI - Apr	50.0	<b>45.1</b>		46.3
5-1 / 9:00 am	ISM Index – Apr	52.0	<b>51.8</b>		51.5
9:00 am	Construction Spending – Mar	+0.5%	<b>+0.2%</b>		-0.1%
9:00 am	U. Mich Consumer Sentiment- Apr	96.0	<b>95.9</b>		95.9
Afternoon	Total Car/Truck Sales – Apr	16.9 Mil	<b>17.1 Mil</b>		17.1 Mil
Afternoon	Domestic Car/Truck Sales – Apr	13.5 Mil	<b>13.5 Mil</b>		13.4 Mil