

Inflation Games

Inflation is a political lightning rod. As a result, there is a good deal of misconception around it. The Consumer Price Index (CPI) is up 7.9% from a year ago and will likely peak in the 8.5 - 9.0% range sometime in the next couple of months, the highest since 1981. Politicians blame war, or COVID, but the simple explanation is just too much money creation.

Others think inflation will be temporary and point to “core” inflation, which looks tamer. Core prices, which exclude the normally volatile food and energy sectors, are up 6.4% versus a year ago and will likely peak near 6.5%.

There is a reason to exclude some prices when there are very special factors at play...but food and energy prices have been going up for over a year. And just because more of the inflationary impact of the surging M2 measure of money (up more than 40% since the start of COVID) shows up in food and energy prices, or even used car prices, isn't a reason not to count them.

Others argue that the government is grossly under-estimating inflation and is hiding the scope of the problem. One on-line analyst says that if we used the pre-1980 methodology to measure inflation it's already running north of 15%.

But there are serious problems with this analysis, as well.

First, the same method suggests inflation has been running close to 10% per year on average since 2000. This is bonkers. If inflation really had been running close to 10% per year, a true measure of real GDP growth would show the US to

have been in recession since 2000. Seriously?!?

Second, why would anyone use the basket of goods and services that Americans were buying in 1980 to measure inflation today? Energy used to be a much bigger share of our spending. Meanwhile, smartphones, by themselves, have replaced spending on a wide variety of products and services. Stereos, records, video recorders, radios, landline phones, clocks, watches, maps, cameras, calculators,...etc. The list goes on and on and keeps getting longer. Today, even poor Americans have access to products and services that the wealthy of prior generations never could have bought at any price.

Third, yes, the government has changed the way it measures home prices, but it's for the better. When people buy a home they are buying an asset, just like when they buy stocks or land. The CPI is designed to measure the cost of consuming goods and services, not the cost of possessing an asset. When it comes to home inflation, the government changed the measure to look at rents, not the price at which homes are sold, because rents are the cost of consuming the value of homes.

The government figures on inflation are not perfect. The main ones are the CPI, the PPI, and the PCE Deflator (the Fed's favorite!). All of them measure slightly different things and so the numbers are different, as well. But the inputs and methods to make these calculations are publicly available. There is not a conspiracy to dupe the American people. And every government measure of inflation is up. It's pretty clear the Fed is going to have trouble wrestling inflation back down.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
3-30 / 7:30 am	Q4 GDP Final Report	7.0%	7.1%		7.0%
7:30 am	Q4 GDP Chain Price Index	+7.1%	+7.1%		+7.1%
3-31 / 7:30 am	Initial Claims – Mar 26	195K	195K		187K
7:30 am	Personal Income – Feb	+0.5%	+0.5%		0.0%
7:30 am	Personal Spending – Jan	+0.5%	+0.5%		+2.1%
8:45 am	Chicago PMI – Mar	57.0	59.2		56.3
4-1 / 7:30 am	Non-Farm Payrolls - Mar	490K	435K		678K
7:30 am	Private Payrolls – Mar	496K	445K		654K
7:30 am	Manufacturing Payrolls – Mar	30K	25K		36K
7:30 am	Unemployment Rate – Mar	3.7%	3.7%		3.8%
7:30 am	Average Hourly Earnings – Mar	+0.4%	+0.4%		0.0%
7:30 am	Average Weekly Hours – Mar	34.7	34.7		34.7
9:00 am	ISM Index – Mar	59.0	58.7		58.6
9:00 am	Construction Spending – Feb	+1.0%	+0.9%		+1.3%
afternoon	Total Car/Truck Sales – Mar	13.9 Mil	12.7 Mil		14.1 Mil
afternoon	Domestic Car/Truck Sales - Mar	10.8 Mil	9.5 Mil		10.9 Mil