


Inflation

Northern Marin Breakfast Club
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National Economic Education Delegation

- **Vision**
 - One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.
- **Mission**
 - NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.
- **NEED Presentations**
 - Are **nonpartisan** and intended to reflect the consensus of the economics profession.



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Who Are We?

- **Honorary Board: 54 members**

- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
 - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 4 Nobel Prize Winners
 - o Akerlof, Smith, Maskin, Bernanke

- **Delegates: 652+ members**

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 49 Ph.D. Economists**

- Aid in slide deck development



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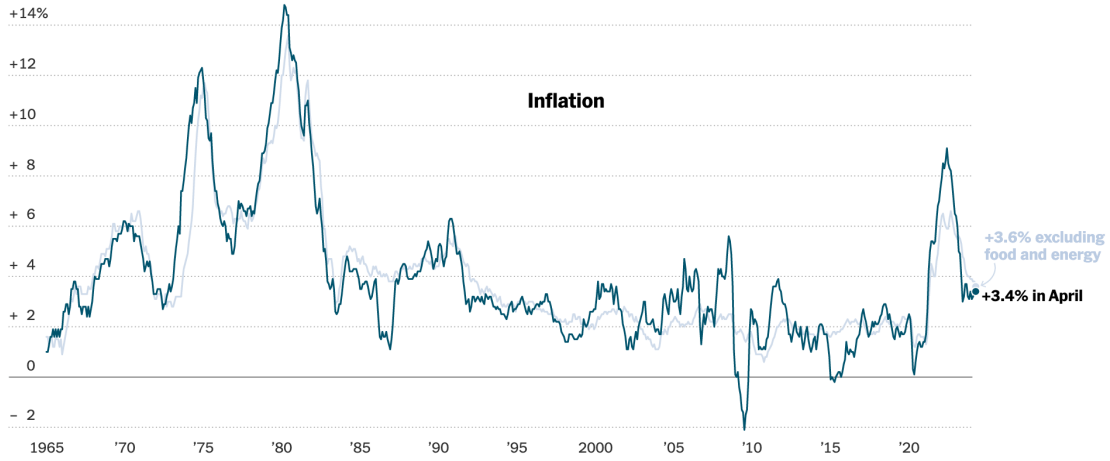
Outline

- **The Current State of Inflation**
- **Root Causes of Inflation**
- **A Little Bit of History**
- **Solutions: The Fed**
- **What Happens Next?**



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Inflation: Latest Figures – Headline - CPI



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How Does Inflation Work?

Inflation represents the rate at which the cost of goods and services increase over a period of time.

Demand-Pull



When demand for goods/service exceeds production capacity.

Cost-Push



When production costs increase prices.

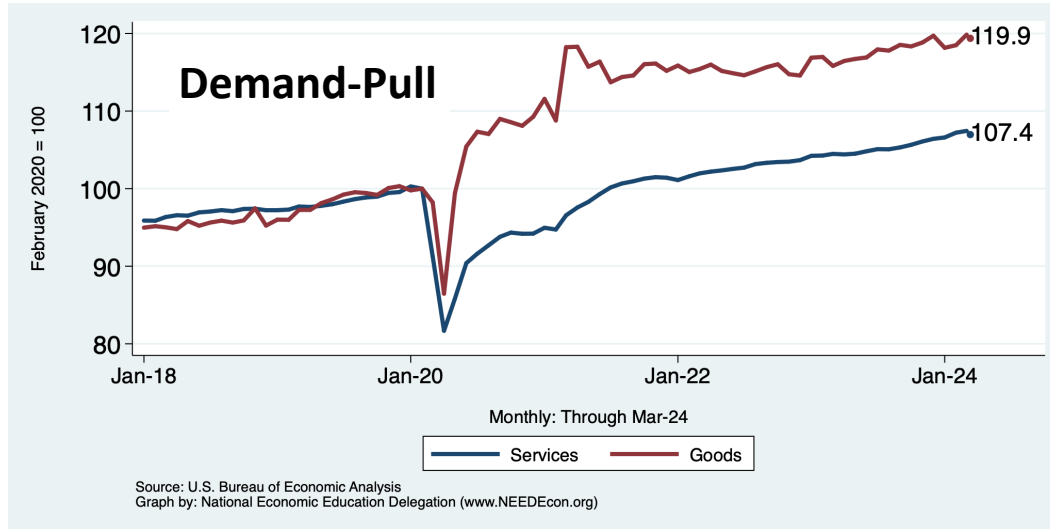
Built-In



When prices rise, wages rise too, in order to maintain living costs.

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Spending Patterns Changed - More Goods!

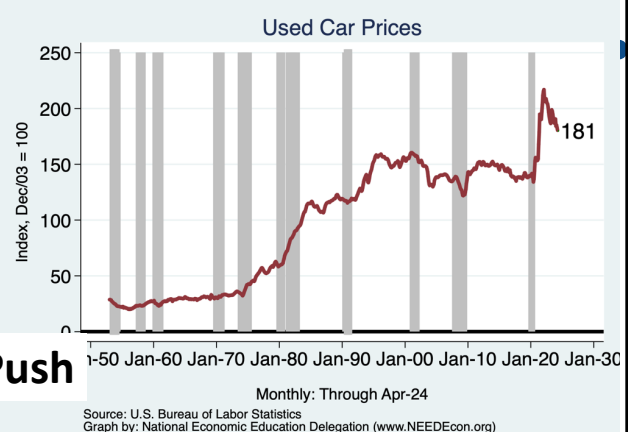


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Inflation: Concentrated



Cost-Push



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The Great Inflation: 1965-1982

- **Proximate causes**

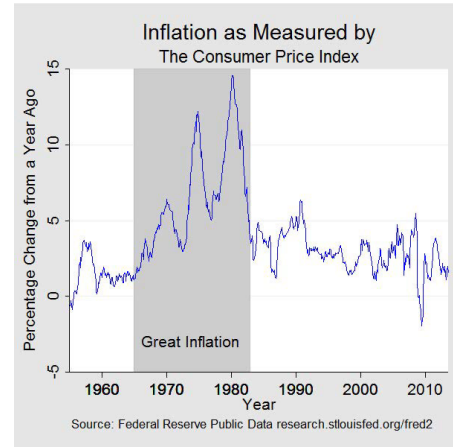
- Collapse of the gold standard
- Fiscal imbalances (Great Society)
- Runaway monetary policy (for Nixon)
- Price controls – after they were lifted
- Energy shortages

- **Lots of “demand pull”**

- Great society, easy money

- **Some “cost push”**

- Energy shortages



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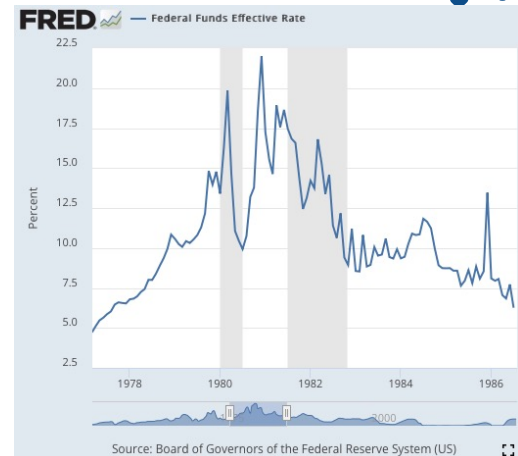
Low Inflation Period: 1980-2021

- **Volcker – stranglehold on inflation in 1980.**

- Causes a recession through high interest rates.
- Harnesses inflation.

- **Next 4 decades**

- Globalization – lower import prices.
- Deunionization (private sector)
 - 21% in 1980
 - 6% in 2019

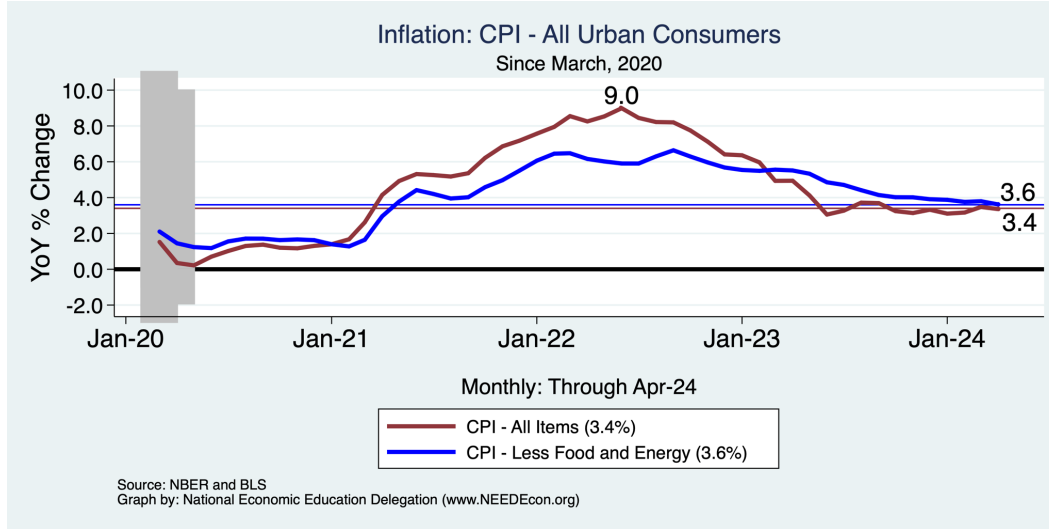


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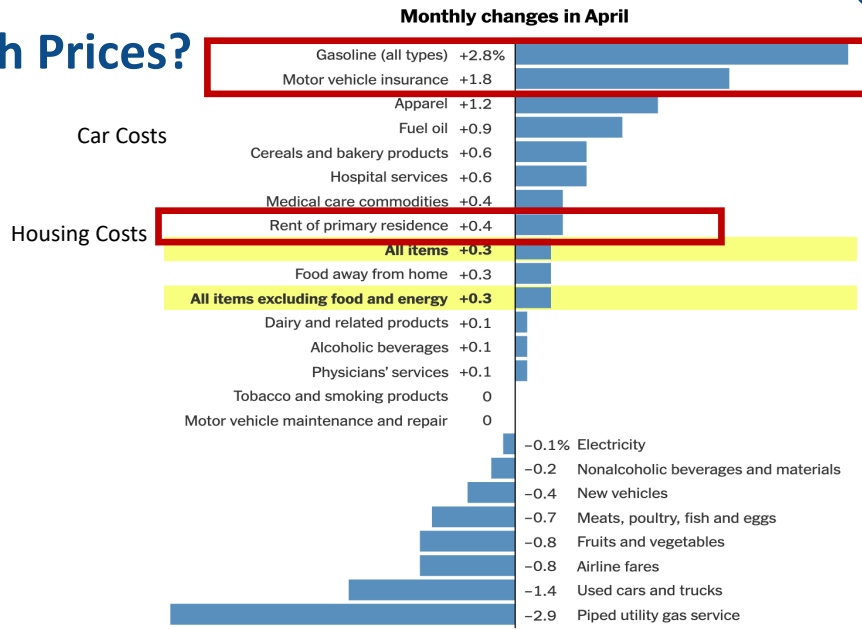
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That Brings us to the Pandemic



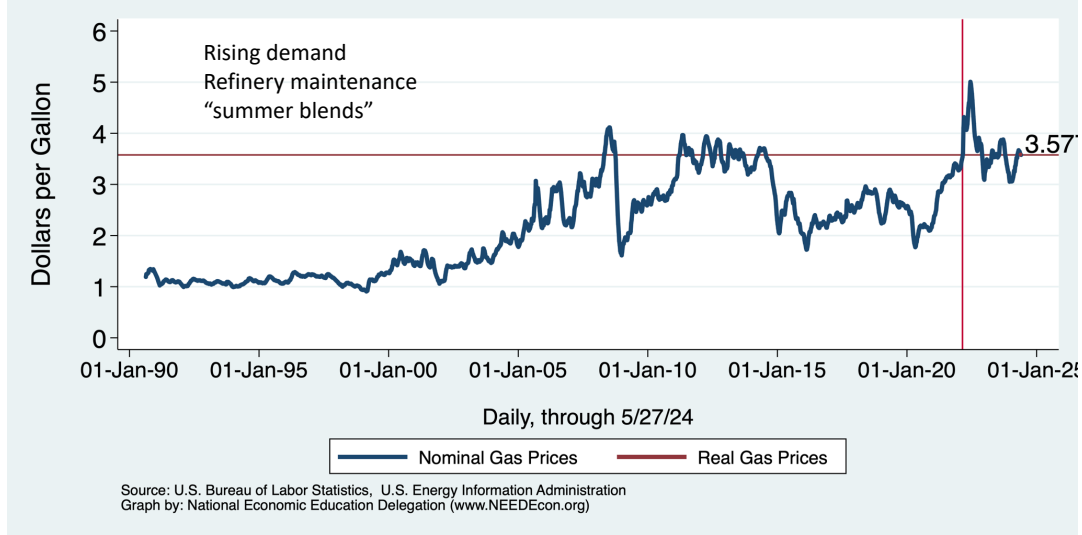
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Which Prices?



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Gas Prices: National Average at the Pump

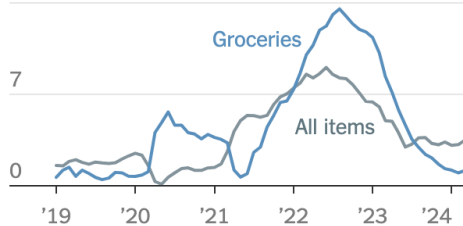


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Change in prices from a year earlier in select categories

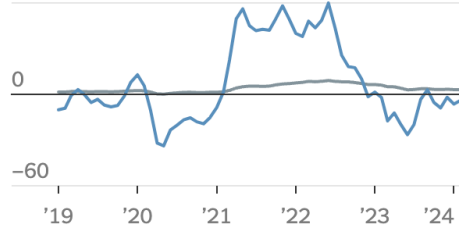
Groceries

+14%



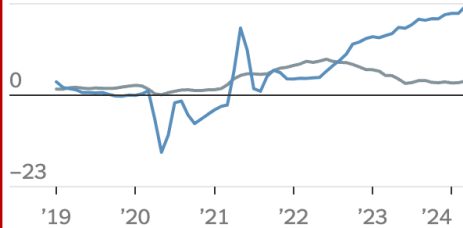
Gasoline

+60%



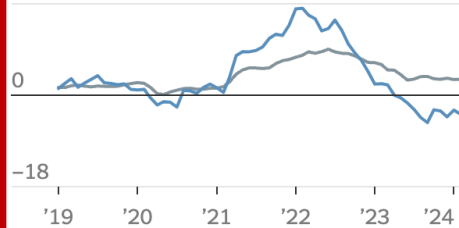
Car insurance

+23%



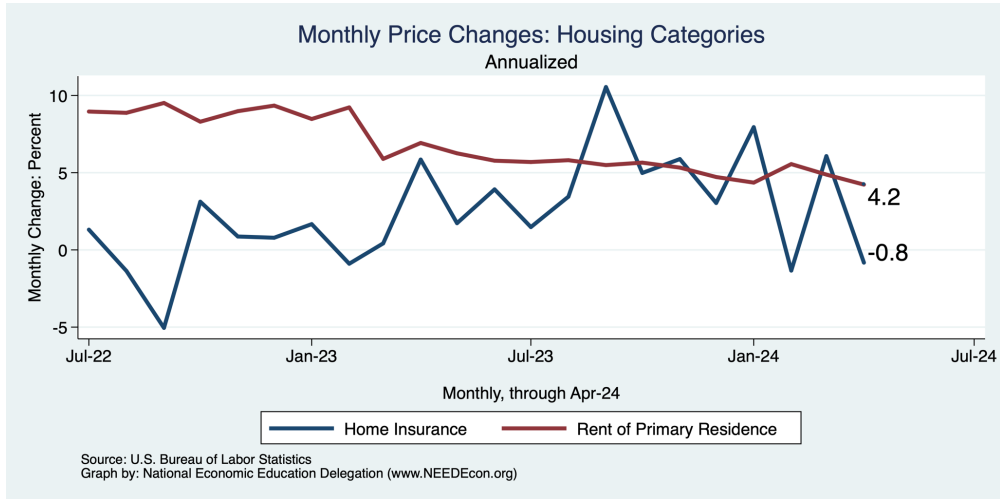
Furniture

+18%



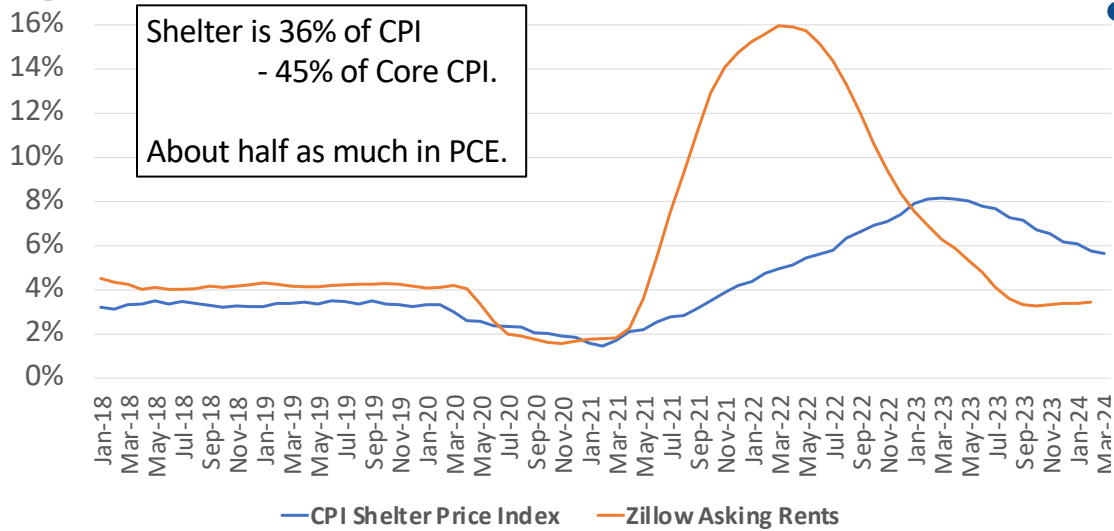
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Housing is the Primary Problem



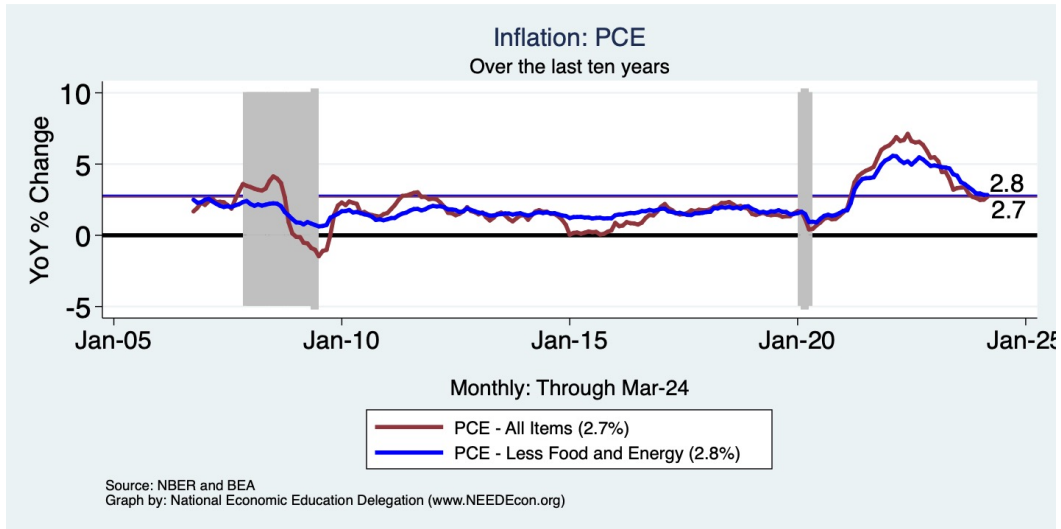
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The Importance & Problems with Rents



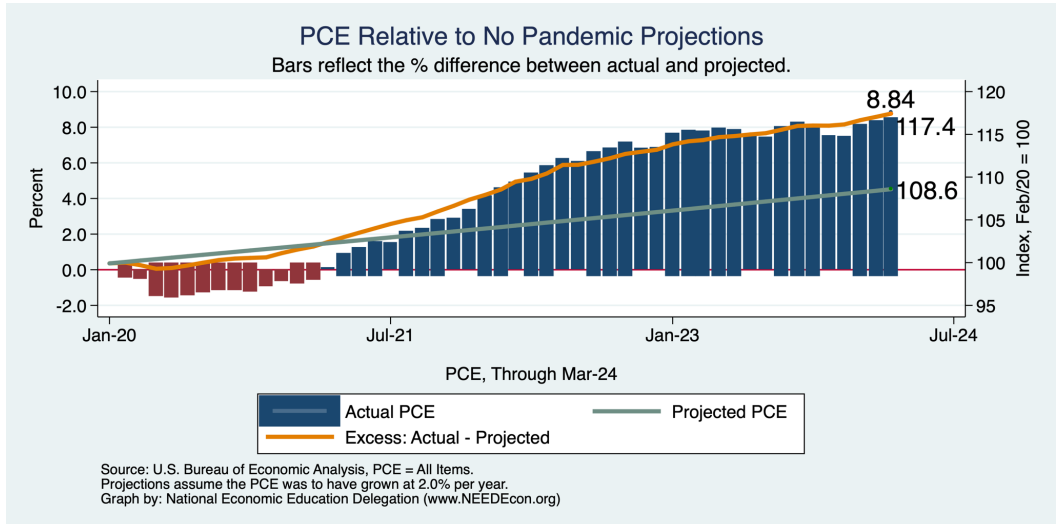
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Fed's Preferred Measure: PCE



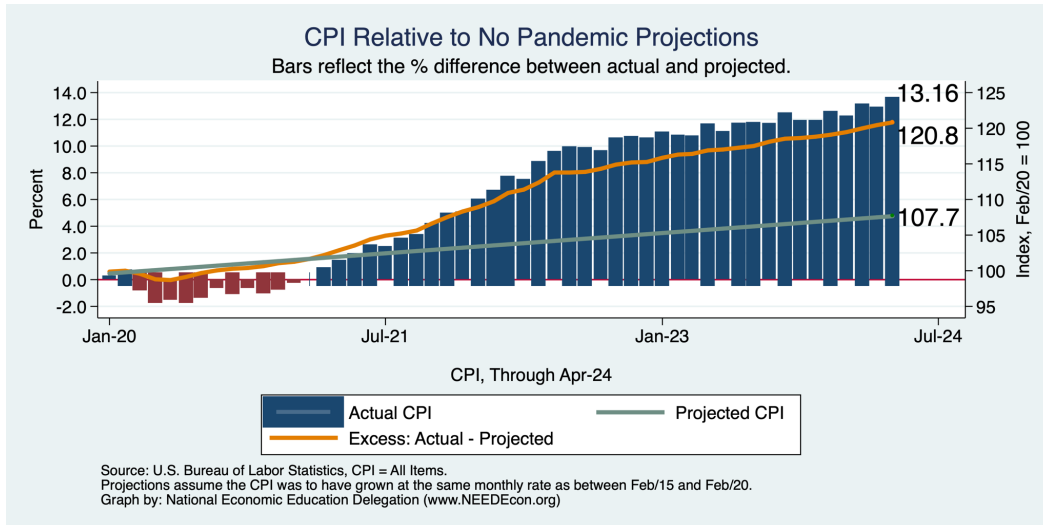
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PCE Deviation from Target



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CPI Deviation from Target



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PCE vs CPI – What's the Difference?

- **Scope**
 - CPI – urban PCE – more comprehensive
- **Formulas**
 - Many different formulas to choose from. BEA vs BLS.
 - Important: PCE updates purchasing patterns more frequently.
- **Weights**
 - E.g., housing
- **Other reasons**
 - Sometimes choose to measure prices differently.



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About that 2% Target

- **There is no specific basis for it.**

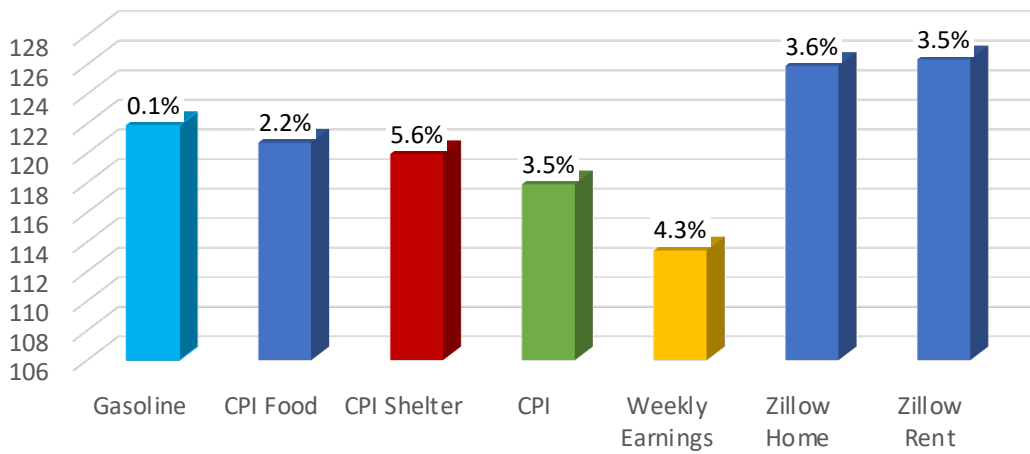
- **Head of the New Zealand central bank said: I'm targeting 2%.**
 - Everybody else said: ok, let's do that.

- **Will it be ok if inflation stays at around 3.5%?**
 - Probably.
 - Unless you're running for president.

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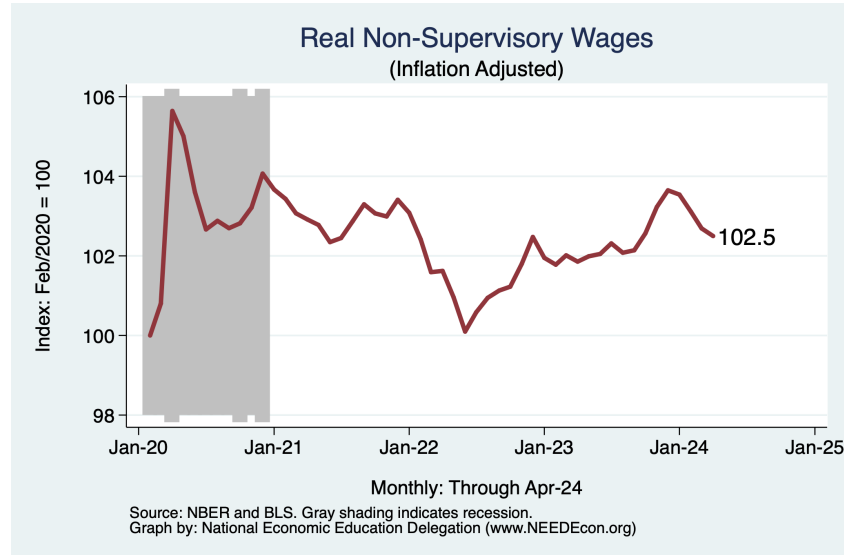
High Prices versus Inflation

Price Level Relative to March 2021 & Last 12 Month Inflation



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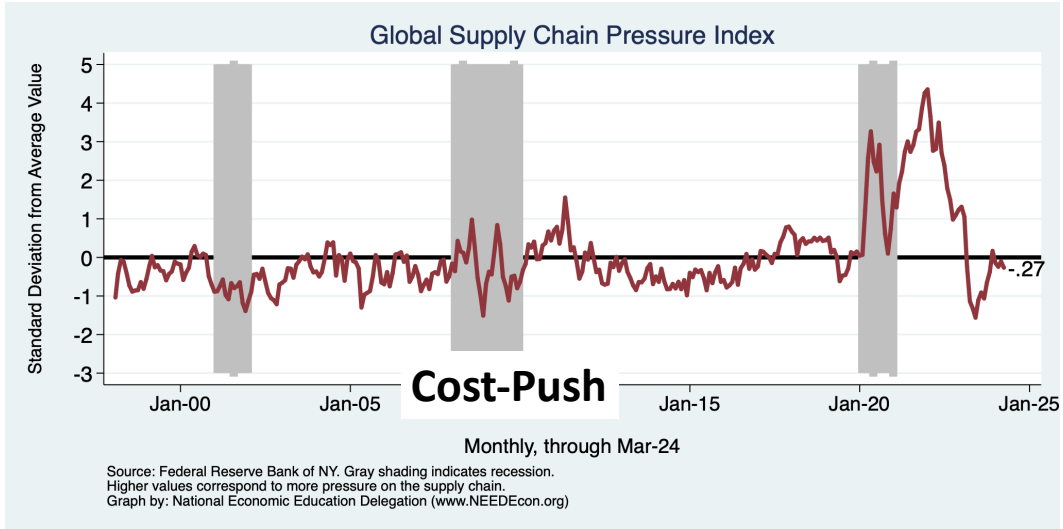
Wage Growth – Exceeds Inflation



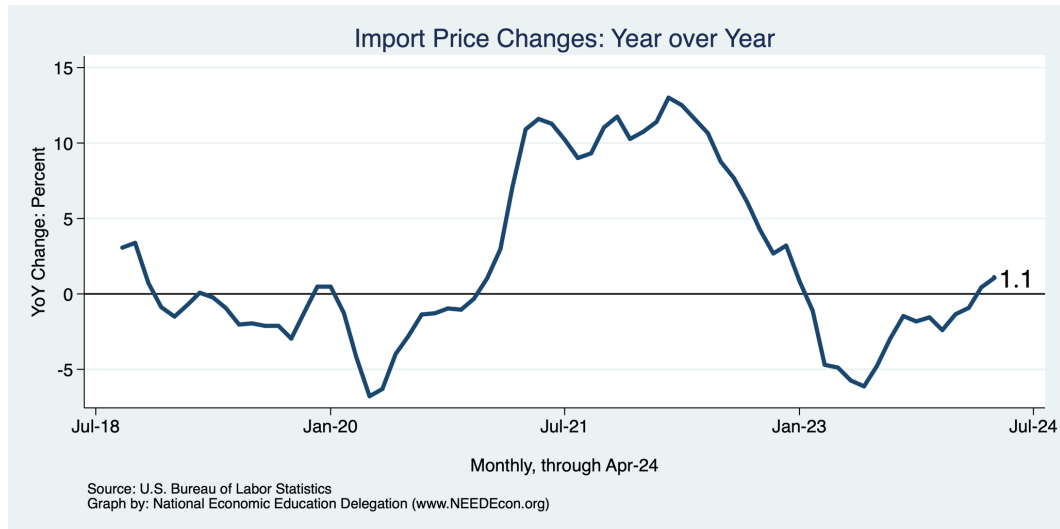
Sources of Pandemic Inflation

- **Supply Chain issues were significant – less so now.**
- **Composition of spending changed significantly.**
 - Is now bouncing back, as are prices.
- **But there was too much total spending.**
 - Fiscal stimulus led households to increase saving over 2021 by more than \$2 trillion. Strong retail sales numbers suggest they are prepared to spend it.
- **Whose to Blame: ARP probably too big, but the Fed could have acted sooner.**
- **Bottom line: Recovery from a dramatic economic disruption is seldom painless.**

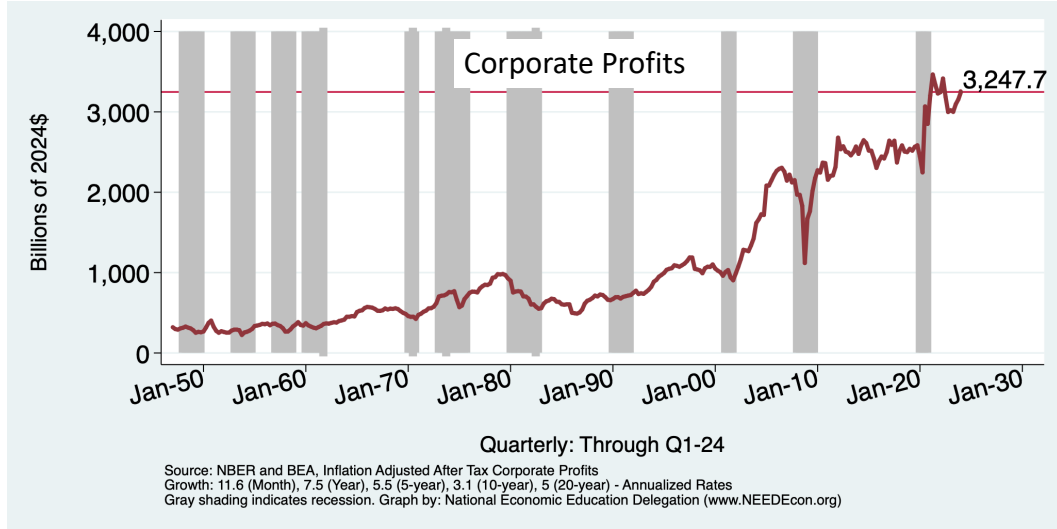
Supply Chains



Import Prices Are Elevated



Corporations Have Pricing Power!



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Shrinkflation

Change in price from January 2019 to October 2023



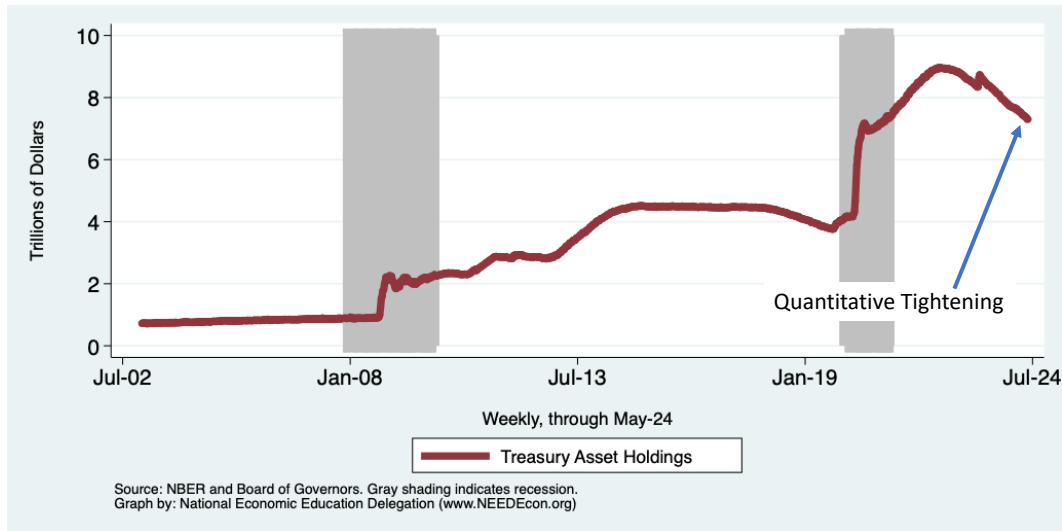
Source: Bureau of Labor Statistics • By The New York Times

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The Fed: Reining in Inflation!

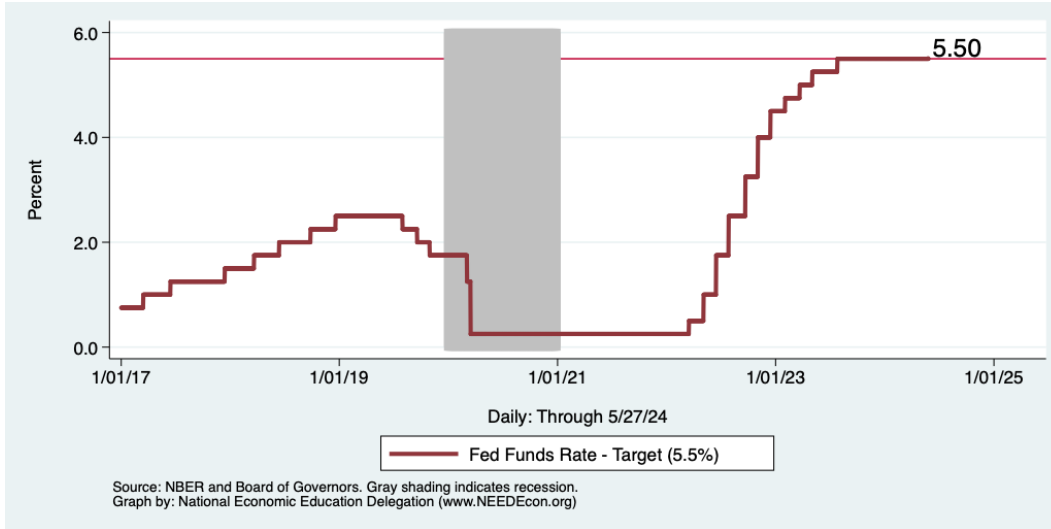
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Fed: Reducing its Asset Holdings



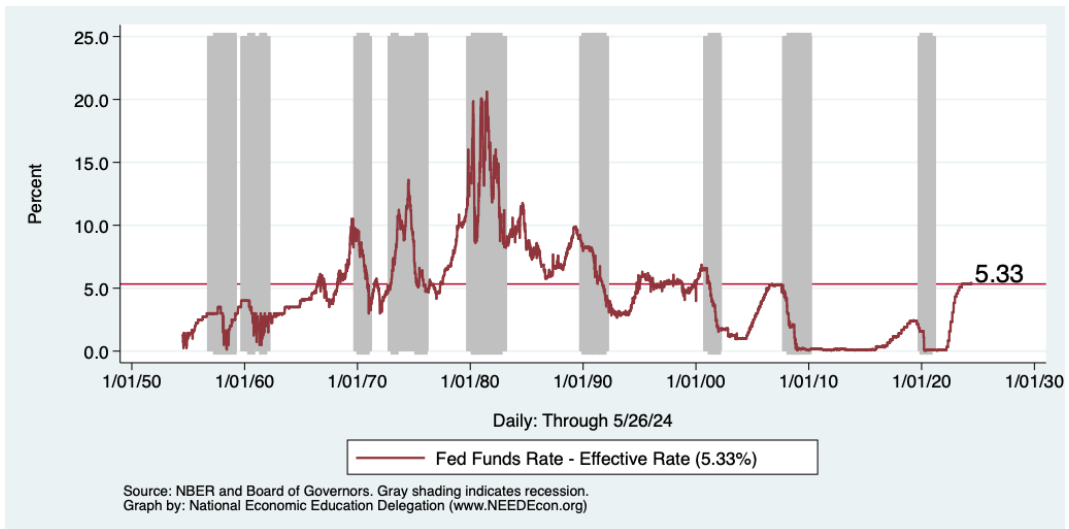
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Federal Funds Rate



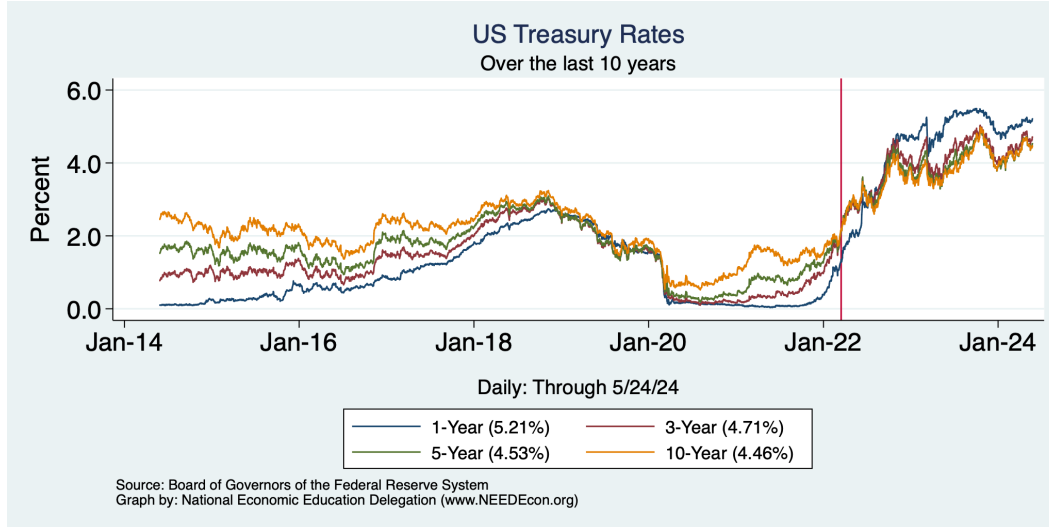
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Federal Funds Rate

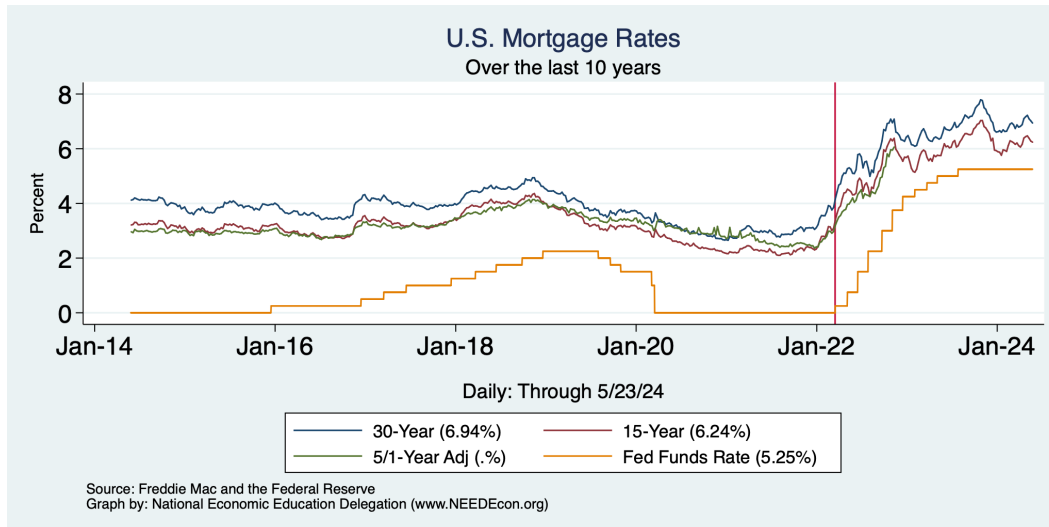


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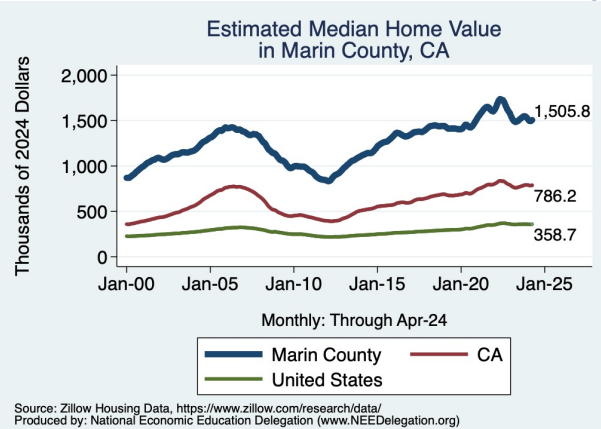
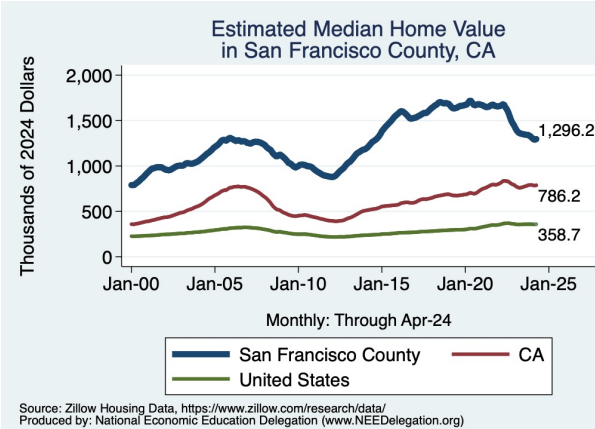
Treasuries



Mortgage Rates



Home Prices ... in Northern CA



What will the Fed Do?

Pending Developments:

- May- June 12 full set of inflation and unemployment for April.
- Wednesday, June 12 Fed policy meeting with new economic projections.

Will likely hold rates fixed unless there is significant progress on PCE.



Parting Thoughts on Inflation

- **Was Milton Friedman right?**
 - “Inflation is always and everywhere a monetary phenomenon.”
 - As a generalization, but not “always and everywhere”.
 - See price changes from disruptions in the economy.
- **What did we see during the pandemic?**
 - Lots of causes that had nothing (?) to do with monetary policy.
- **Where is inflation going?**
 - I expect back down to close to 2% sometime next year.



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Thank you!

Any Questions?

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