The Daily Dish

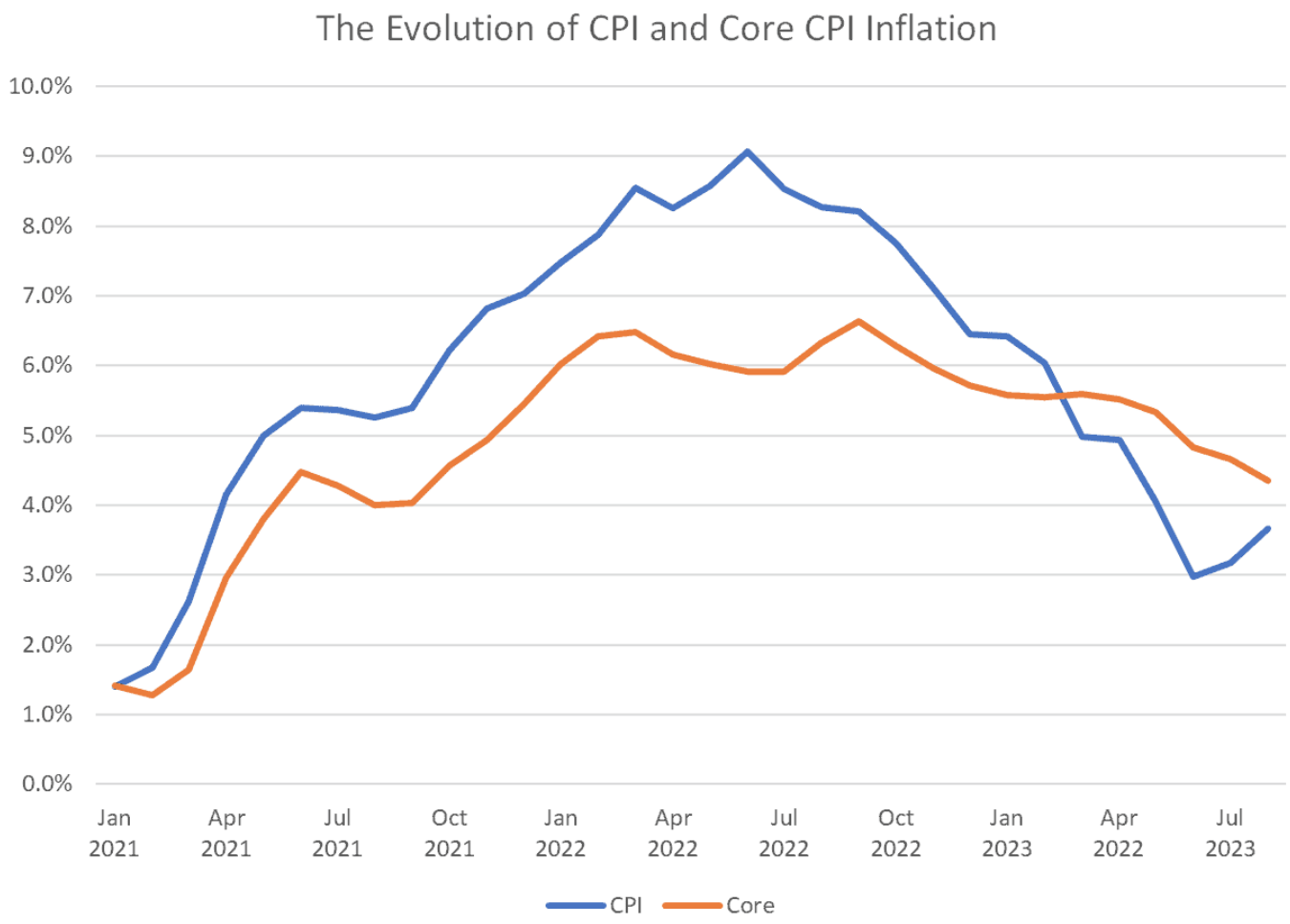
August Inflation Report

DOUGLAS HOLTZ-EAKIN | SEPTEMBER 14, 2023

The Bureau of Labor Statistics (BLS) released the August Consumer Price Index report yesterday. The data came in hot, with the top-line inflation rising by 0.6 percent (a 7.4 percent annual rate) and the core (non-food, non-energy) inflation at 0.3 percent (a 3.7 percent annual rate). The former was expected, but the core came in above the expected rise of 0.2 percent.

Translated into year-over-year inflation rates, the latest CPI is 3.7 percent (up from 3.2 percent last month) and core is 4.3 percent. These data figure into two major issues: the future of Federal Reserve policy and presidential politics.

Regarding the Fed, it realizes that half of the increase is due to gasoline prices alone. It will focus on core inflation. As seen below, the core remains stubbornly high – over twice the 2 percent target – but has declined steadily. The issue the Fed faces is whether it can count on a continued decline to 2 percent on the basis of past tightening. Or, should it raise rates even more to guarantee a return to 2 percent and perhaps do so more quickly? A vigorous internal debate is underway.



On the politics, the Biden White House made a big mistake in trumpeting (and taking credit for) the 3.0 percent inflation two months back. In reality, the decline was just a lucky break on low energy (especially gasoline) prices. Now that it has reversed, and inflation has risen for two consecutive months, there is a desperate attempt to shift the focus to core inflation.

But there is a problem using the core inflation as well. The administration's culpability is just as clear using this measure. Inflation was non-existent entering 2021 and it jumped up in the immediate aftermath of the $2 trillion over-stimulus in the American Rescue Plan. Although it has come down slowly, it remains elevated, in part because the Biden Administration is running a recklessly loose fiscal policy (a doubling of the federal deficit this year) for an economy at full employment.

There is another problem as well: People don't care about every price. They care about the prices of the things that they purchase. If used-car prices go up, Eakinomics does not care. Ditto for the cost of manicures or any of a zillion other items not on the shopping list. For the average family, food, energy, and shelter take up 50 percent of the monthly budget. So, the average family cares about food, cares about energy (especially gasoline), and cares

about rent. As shown below, inflation in food, energy, and shelter (FES) is 5.2 percent.

That's a long way from the 2 percent target and high enough to inflict economic pain. For the same reason, it explains why Bidenomics remains an impossible sale.

