



The Daily Dish

Inflation Fears

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Eakinomics: Inflation Fears

Inflation is the trendy economic boogeyman. A sudden and sharp increase in inflation is associated with three popular story lines. The first is an indictment of the Fed for having kept monetary policy too easy for too long. The second is a critique of the recently passed tax bill as an inappropriately large fiscal stimulus for an economy near full employment. (Obviously, these are not mutually exclusive.) The final is a “here comes the next doomsday” [scenario](#) in which rising inflation forces a sharp monetary contraction, financial market disruption and a repeat of the financial crisis and Great Recession. (Again, this is could be consistent with either of the first two notions.)

The common feature in each of these stories is that inflation is suddenly a threat. What are the facts?

The chart below shows the trends in consumer prices as measured by the Consumer Price Index (CPI) for all items (red line) and the “core” prices measured by all items less the volatile food and energy categories (green line). Clearly the top-line CPI has fluctuated more dramatically (up in 2011 and 2012; down in 2014 and 2015). The core CPI has remained relatively close to the Fed’s 2 percent target.