



The Daily Dish

# Inflation Watch

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## Eakinomics: Inflation Watch

If a picture is worth 1,000 words, this Eakinomics comes with an 8,000 word bonus.

In March Congress passed the \$1.9 trillion American Rescue Plan (ARP) even as the economy was expanding at a rapid pace – the current estimate of 1<sup>st</sup> quarter growth in gross domestic product is roughly 8 percent at an annual rate. As a result, there has been considerable concern that current fiscal policy is recklessly over-stimulative, particularly since the ARP came on the heels of the \$900 billion Consolidated Appropriations Act in December and was accompanied by an extremely accommodative monetary policy stance by the Federal Reserve.

Former Secretary of the Treasury Larry Summers has been a vocal [critic](#) of this administration's fiscal policy, warning that it could re-ignite consumer price inflation. That might be the case if enough of the fiscal push turns into spending. But the personal saving rate was 19.8 percent in January and 13.6 percent in February. Who knows what it will jump to in March, but clearly a fair amount of cash is flowing into different forms of saving and asset accumulation. In this view, the primary price inflation will be asset price inflation.

The two views are not mutually exclusive, and, in the end, it will be an empirical issue. So, let's take a look at the data and you can decide for yourself. In each graph, prices are measured as the percent change from the same month one year earlier – year-over-year inflation. The shaded area represents the pandemic time period through February 2021. Thus, these charts amount to a description of the inflation landscape just as the ARP begins to take effect.

To start, here's a look at asset prices. The Wilshire 5000 is a broad index of equity prices.



As a measure of housing prices, I used the Case-Shiller National Home Price Index.

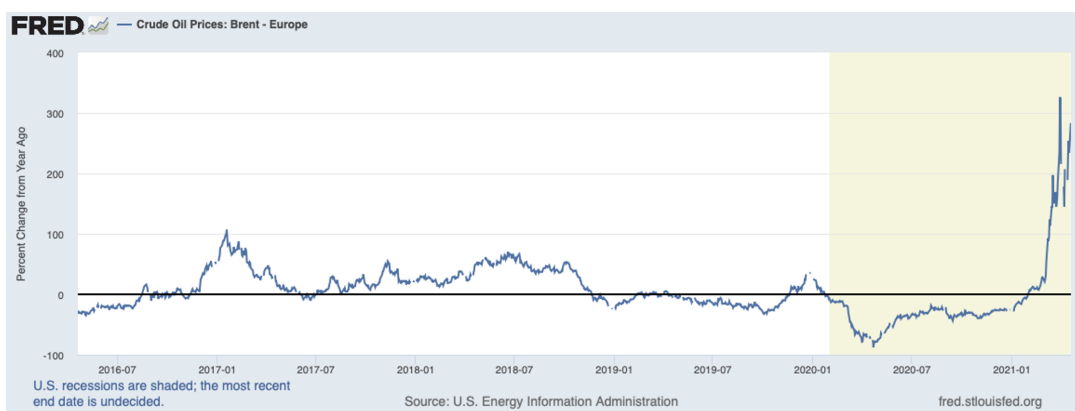


And to capture more exotic asset prices, I chose Bitcoin. (Somebody is going to have to tell me what went on in 2018!)

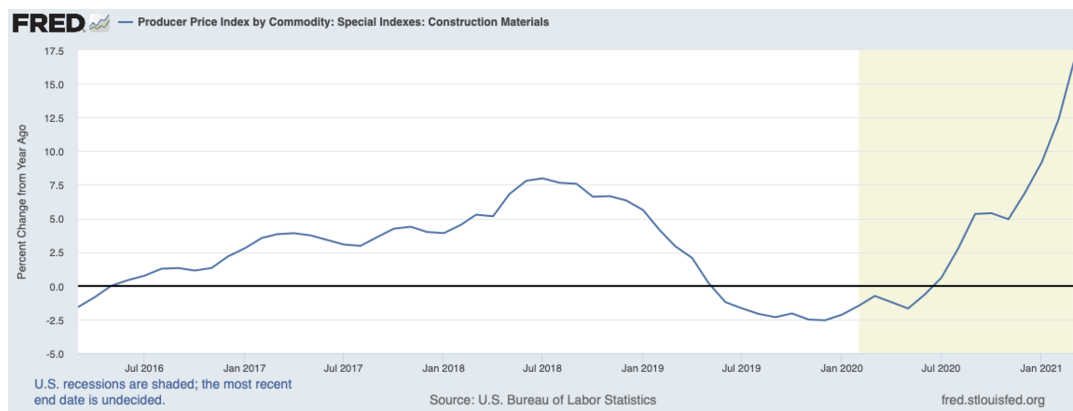


At least to my eye, there is substantial uptick in asset price inflation, and the ARP could engender a lot more.

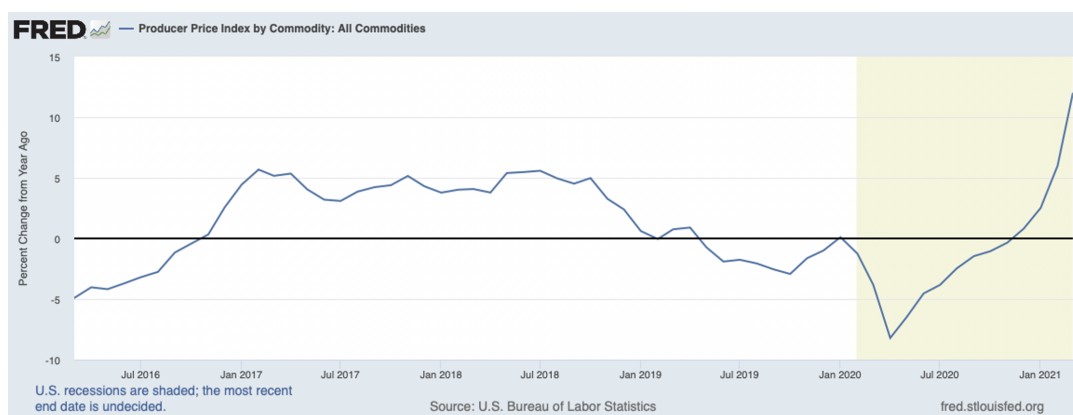
Now, turn to a walk through the supply chain looking at prices ranging from inputs to final goods and services. Begin with commodities, particularly oil.



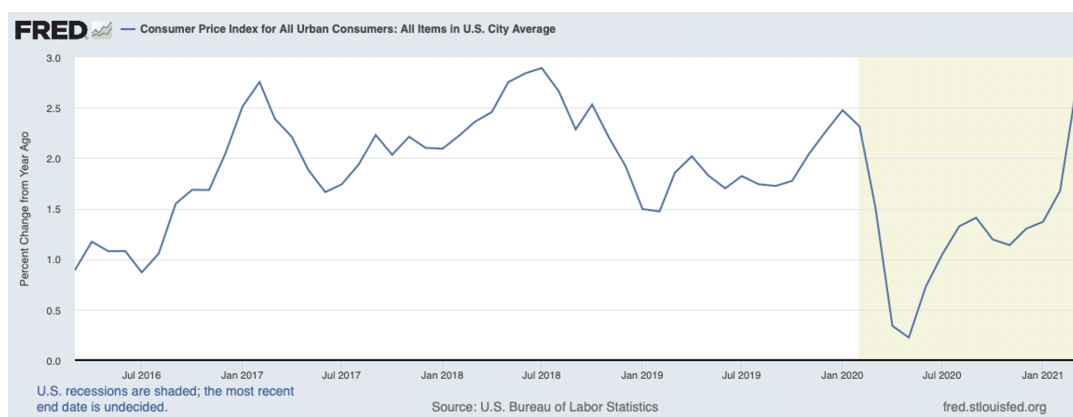
Now, turn to the inputs into construction.



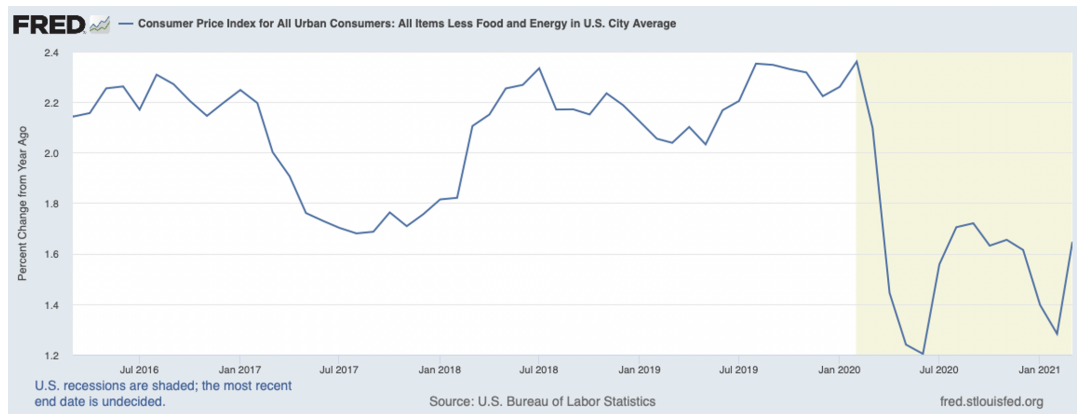
Finally, let's take a look at the Producer Price Index, a broad measure of the cost of inputs to final goods and services.



By almost any measure, the supply chain prices are showing a growing upward pressure on the prices of consumer goods and services. Indeed, the Consumer Price Index (CPI) reflects this upward pressure fairly clearly.



If one looks at the core CPI, the CPI excluding food and energy, however, the picture is far more muted. The upward movement in the CPI is being greatly driven by food and energy prices.



Draw your own conclusion. To me, there is already surprising inflation pressure in the pipeline, even as we are just starting to see the impacts of the ARP.