The Daily Dish

Inflation Watch

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Eakinomics: Inflation Watch

Yesterday, the Bureau of Labor Statistics (BLS) released the February report on the Consumer Price Index (CPI). For all items, the CPI was up 0.2 percent in February and 2.2 percent compared to February 2017. So-called "core" inflation (which excludes food and energy products) also rose by 0.2 percent, but was up only 1.8 percent compared to a year earlier. Pretty dull stuff.

Given that, why is the inflation gauge suddenly receiving so much more attention? First, there is a new Fed Chairman (Jerome Powell), and markets are attentive to clues that he might respond to economic data differently than his predecessor Janet Yellen. Other than being a bit more plainspoken, the answer thus far appears to be no. Second, the Fed has pushed for years to hit its inflation target of 2 percent. Using the core measure as the central guide, the Fed is now close to achieving its objective even as it "normalizes" (i.e., raises) interest rates. Third, and perhaps most central to the near-term path of the economy, is the search for evidence that the pro-growth Trump Administration policies are having a discernible impact on growth, demand for labor, higher wages, and price inflation. At least to my eye, the jury is still out. Despite the large fiscal stimulus (1.3 percent of gross domestic product in 2018), there is not yet a discernible uptick in the data.

However, it is useful to dig a bit deeper into the inflation data. As has been true for quite a while, the inflation in goods and the inflation in services diverge sharply. In the CPI data, year-over-year inflation for commodities (excluding food and energy) was -0.5 percent — prices fell. In contrast, the inflation rate for services (excluding energy) was 2.6 percent — well above the 2 percent target. This raises the question: Will the deregulatory and tax policies of the administration have a differential effect on goods' prices? After all, all of the world is now growing strongly, perhaps raising the price pressures of globally traded goods. A sharp uptick in U.S. growth may lead to a further firming of these prices.

Overall, however, the price outlook is relatively benign. There is no real evidence of a need for the Fed to move more quickly or aggressively in response to the fiscal stimulus provided by the tax cuts.