



The Daily Dish

The Fed and Inflation

DOUGLAS HOLTZ-EAKIN | AUGUST 4, 2022

On Tuesday, presidents of regional Federal Reserve Banks went into beast mode on fighting inflation. Per [Bloomberg](#), Loretta Mester (president, Cleveland Federal Reserve Bank) said she “would need to see ‘compelling evidence’ that inflation is retreating, including several months of declining readings, before she could conclude that inflation has peaked. ‘I will need to see several months of sustained downward monthly readings of inflation. I have not seen that yet.’”

In a [separate Bloomberg story](#), Charles Evans (Chicago Federal Reserve Bank) said “policy makers are ‘probably at least a couple of reports away’ from seeing the kind of improvement in the inflation data that would reinforce the notion that they are on the right track with monetary tightening” and Mary Daly (San Francisco) argued “‘we are still resolute and completely united’ in the objective of getting inflation down around the 2% inflation target.”

Meanwhile, in a parallel universe, the White House and press sparred over whether the United States is already in a recession and policymakers on Capitol Hill began to lobby for the Fed to stop and reverse course. St. Louis Fed President Jame Bullard disagreed, [arguing](#) “the US economy is unlikely to experience a recession, and that the Fed ‘may be able to disinflate in an orderly manner and achieve a relatively soft landing,’ where it slows inflation without sparking a contraction.”

What is going on?

In large part, it depends upon what data is being discussed. Those worried about recession point to the Bureau of Economic Analysis’ two consecutive quarterly reports of declining gross domestic product (GDP). The Fed is well aware of the GDP data but is convinced that the only route to sustained high employment and sustained GDP growth is to get inflation under control. And in its view, inflation is far from under control.

To see why, consider the performance in 2022 of its preferred measure of inflation: the price index for personal consumption expenditures.

	2022					
	JAN	FEB	MAR	APR	MAY	JUN
Personal consumption expenditures (PCEI)%		6.3%	6.6%	6.3%	6.3%	6.8%
Goods	8.8%	9.5%	10.6%	9.5%	9.6%	10.4%
Durable goods	11.5%	11.0%	10.1%	8.4%	6.6%	6.1%
Nondurable goods	7.2%	8.6%	10.8%	10.1%	11.3%	13.0%

Services	4.5%	4.6%	4.6%	4.6%	4.6%	4.9%
Addenda:						
PCE excluding food and energy	5.1%	5.3%	5.2%	4.9%	4.7%	4.8%
Food	6.6%	8.0%	9.2%	10.0%	11.0%	11.2%
Energy goods and services	26.0%	25.8%	34.0%	30.4%	35.6%	43.5%
Market-based PCE	5.8%	6.2%	6.8%	6.5%	6.7%	7.3%
Market-based PCE excluding food and energy	4.8%	5.1%	5.1%	4.9%	4.8%	5.1%