



Zanetti Monday Missive 2023.02.20 Still Not Transitory

**“I don’t think there’s going to be an inflation problem.”
~ Janet Yellen, U.S. Treasury Secretary (May, 2021)**

**“The elevated US inflation will prove transitory.”
~ Janet Yellen (October, 2021)**

**“[There were] supply bottlenecks that affected our economy badly that I didn't, at the time, fully understand.” (code for “I was wrong about inflation.”)
~ Janet Yellen (June, 2022)**

**“I believe by the end of next year you will see much lower inflation if there's not ... an unanticipated shock,”
~ Janet Yellen (December, 2022)**

“Neither a state nor a bank ever have had unrestricted power of issuing paper money without abusing that power.”

~ David Ricardo, Classical economist and former member of British Parliament (1819-1823)

Happy President's Day Everyone!

I read a few articles this past week how inflation was starting to cool down.

Not turn negative, mind you. Just cool down.

January's inflation report was 6.4%. Down from 9.1% back in June.

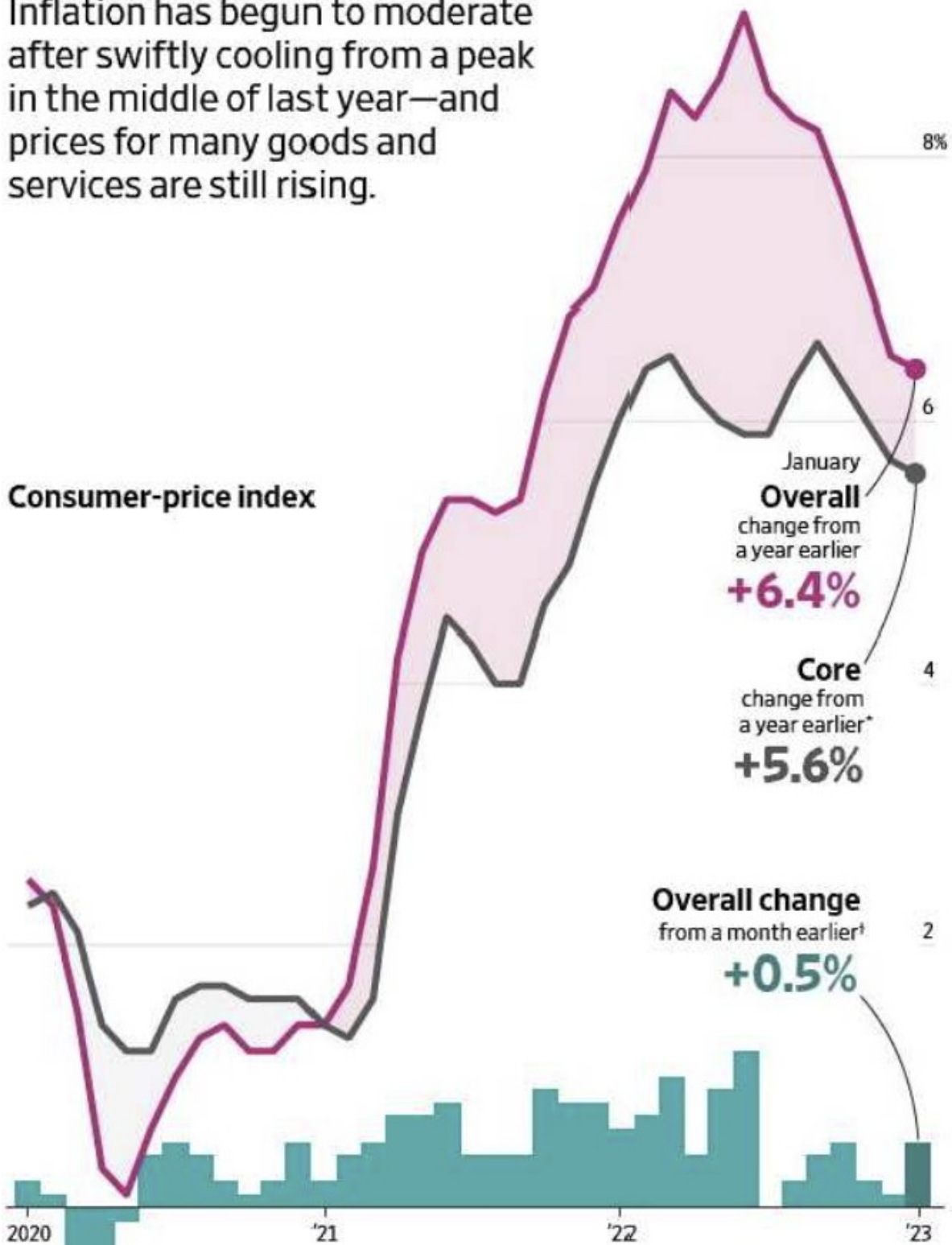
First off, those inflation numbers are calculated at a rate that makes them lower than what you and I feel in our pocketbooks – I've written on this before. But let's just go with Washington's numbers for the sake of argument.

While, yes, 6.4% inflation is better than 9.1%, it's not a good number. That means prices in January of 2023 were 6.4% higher than prices in January of 2022 – 1 year ago.

That's still a high inflation rate. And a *heckuvalot* higher than the 2% inflationary rate goal of the Federal Reserve.

The other thing is the decline of inflation from 9.1% is starting to cool down – that's not a good thing. We want inflation to drop at a fast rate. But some things are continuing to rise in price. Like eggs for instance. Prices actually rose month-over-month by .5% and that helped to slow down the decline.

Inflation has begun to moderate after swiftly cooling from a peak in the middle of last year—and prices for many goods and services are still rising.



Let's look at this and see if we can figure out what's going on...

Why did the rate initially fall so much?

I think we can point to the interest rate increases that the Fed put into place. Never before in history has the fed raised rates this much in this short of a timespan. Even in the 1970's when Paul Volker raised rates to the high teens, he did so over a longer period of time.

So, yes, the Fed tried to slam the brakes.

But now the brakes are starting to fail... well, maybe not fail but they're not braking as sharply but the same pressure is still being applied.

So, now let's ask again, why?

Well, I think we can point to the \$6 Trillion dollars the US government dumped into the economy during Covid. And, again, the \$6 Trillion dollars wasn't just \$6 Trillion dollars – it was multiple times that. \$6 Trillion is just what the US Congress passed to pay out to Americans in the way of stimulus.

For sake of argument, let's just say a TON of cash was dumped into the economy. And that's why we all called "Bull!" on the initial remarks that inflation would be "transitory." The stimulus money wasn't transitory (it was being dumped into the economy at warp speed), so neither would the inflation be.

And, that stimulus continues to feed the inflation problem.

Raising rates will help bring down the inflation, but at this rate, they're going to have to keep raising those rates for a while – without reversing course.

But then again, the US government does have a spending problem – they spend more than they make. And they just bumped into their own debt limit which means they have to raise their debt limit just to keep spending.

And to keep spending, they have to keep borrowing. And borrowing at interest rates that are now rising. Which means they will have to pay more interest. Which will eat into their debt capacity again. It is looking like a vicious cycle.

Either way, in spite of the reassurance that Ms. Yellen gives us about inflation decreasing – we're not holding our breath for that to happen anytime soon.

Your-Inflation-Is-So-Bad-I-Can't-Even-Pay-Attention Financial Advisor,

Walt

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