



Zanetti Monday Missive 2023.09.11

If Inflation Is Down, Why Are Prices Climbing?

“Inflation is always and everywhere a monetary phenomenon.”

~ Milton Friedman

“A nickle ain’t worth a dime anymore!”

~ Yogi Berra

Happy Monday Everyone!


Have you noticed mixed messages about inflation in the headlines lately?

I have and it’s caused me to do some head scratching.

Here’s a NY Times article headline:

Biden Touts Easing Inflation as ‘Bidenomics in Action’

The White House has been making the case that the president’s policies have kept the economy on a steady path and maintained a healthy labor market.

 Share full article



But then, there’s this CNN News headline:



Yes, inflation is coming down. That doesn't mean goods and services will be cheaper

By Elisabeth Buchwald, CNN

Updated 5:52 AM EDT, Wed June 21, 2023



And finally, here's one from WaPo:

The Washington Post
Democracy Dies in Darkness

If inflation is easing, why are gas and groceries still so expensive?

So, which is it? Is inflation going down or are prices going up?

Well, in one word: yes.

And with that simple one word answer, you're probably saying to yourself, *"Ok, Walt's finally lost it. I always thought this day would come. And it's finally here!"*

Whoa, whoa, whoa. All is well, gentle reader, just bear with me for a bit.

First, let's say, hooray! Inflation is down!

But is it?

My answer is yes, but not as much as the CPI (Consumer Price Index) is saying. As we've discussed before, the CPI measures the year over year price changes of the items in a "basket of goods."

What's in the "basket of goods" that gets measured? Well, not always the same things. The items in that basket get swapped out and replaced with other items all the time.

Then there are the collection methods of the data.

Rent, for example, is measured not by recording rents across the country, or calling landlords and asking them, but by calling random home owners and asking them what they would rent their homes for – if they guess lower than the homeowners from a year before, the rent number goes down. We all know that's not how the rental market works, but that's how "rent" is calculated for the CPI.

But enough about how inflation is calculated, I'll agree that inflation has been falling (though the real numbers should be higher – yet still falling).

But here's why prices still seem so high – and getting worse.

The trick is even though inflation is decreasing, prices are still going up!

Eh?

That's right, prices are still going up due to inflation, just not as fast as they were when inflation was worse.

Are you tracking with me?

Last year inflation was around 9% (I'd say it was probably closer to 18%). Now inflation is down around 3% (I'd double that again and say closer to 6%).

So, what those numbers mean?

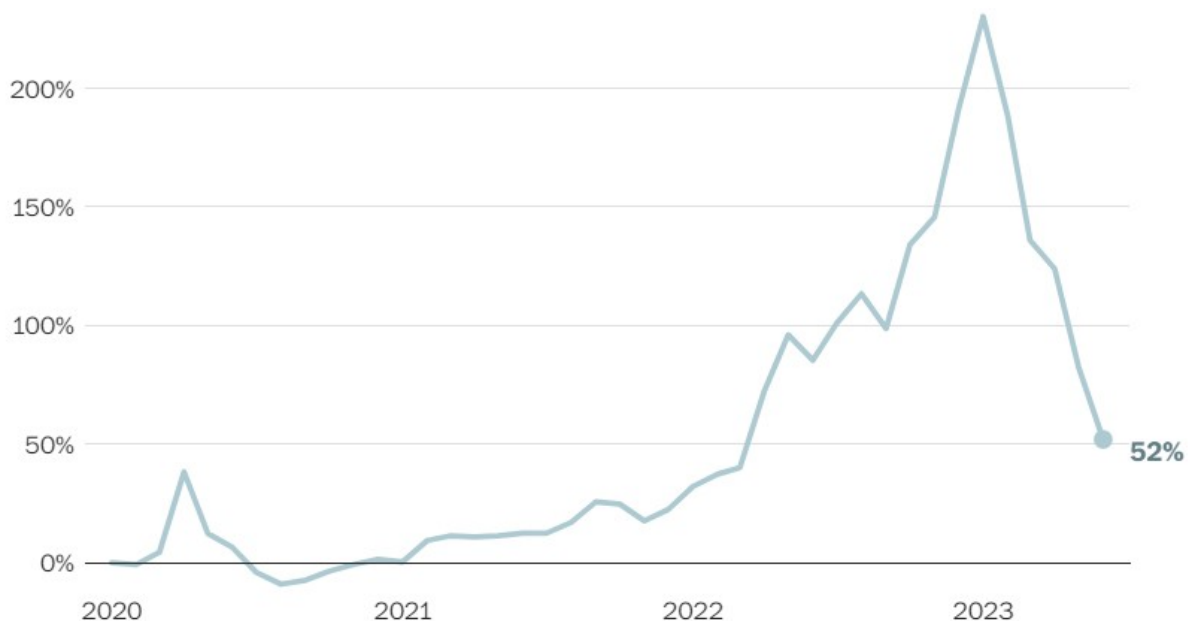
Last year prices were higher than the prior year by 9%. Now, they're higher than the prior year by 3%. So, prices have never come down, they're just not climbing as fast as they were a year ago. But, they're still climbing... and Bob's your uncle.

Let's look at a few charts.

First, eggs.

Egg prices skyrocketed after an avian flu outbreak and remain above pre-pandemic levels

Percent change in consumer price index since January 2020, seasonally adjusted



Source: Bureau of Labor Statistics

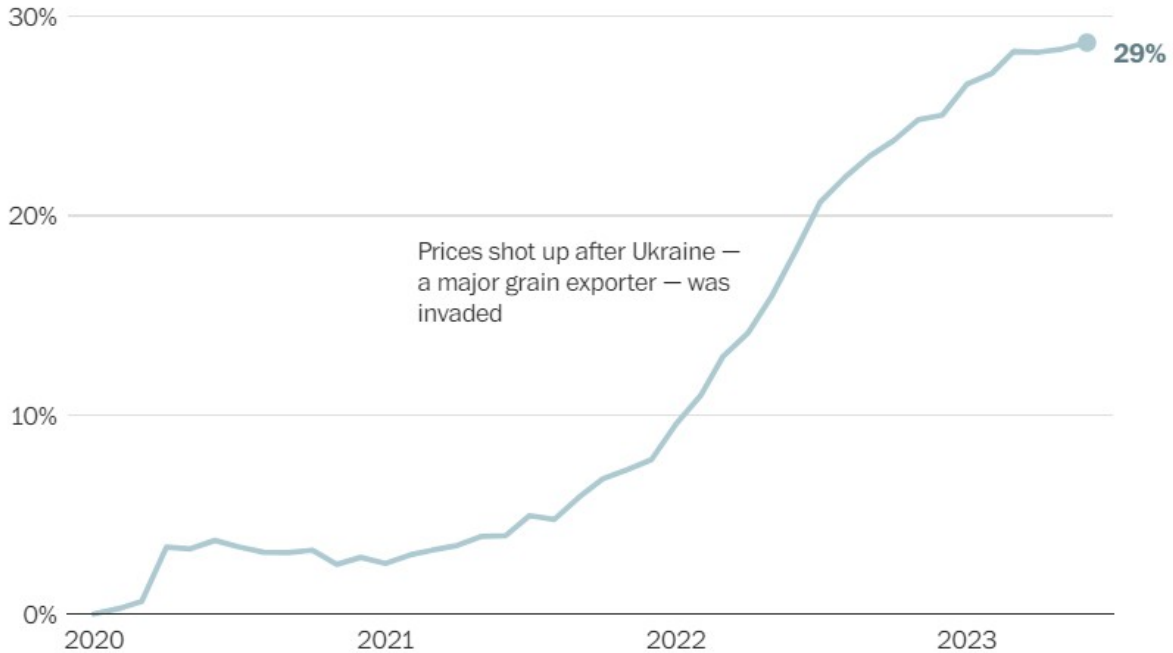
Last year eggs had skyrocketed 200% above the price of eggs from the prior year. That growth has decelerated quite a bit, now they're "only" 50% higher than the price of eggs last year. But last year was 200% higher than the year before, and now they're 50% higher than that.

See how the "good news" on inflation isn't that "good"?

Cereal and baked goods have continued to climb – they're now up to 29% higher than last year. But, as you can see from the chart, the climb has started to flatten out.

Cereal and baked good prices popped since 2022

Percent change in consumer price index since January 2020, seasonally adjusted

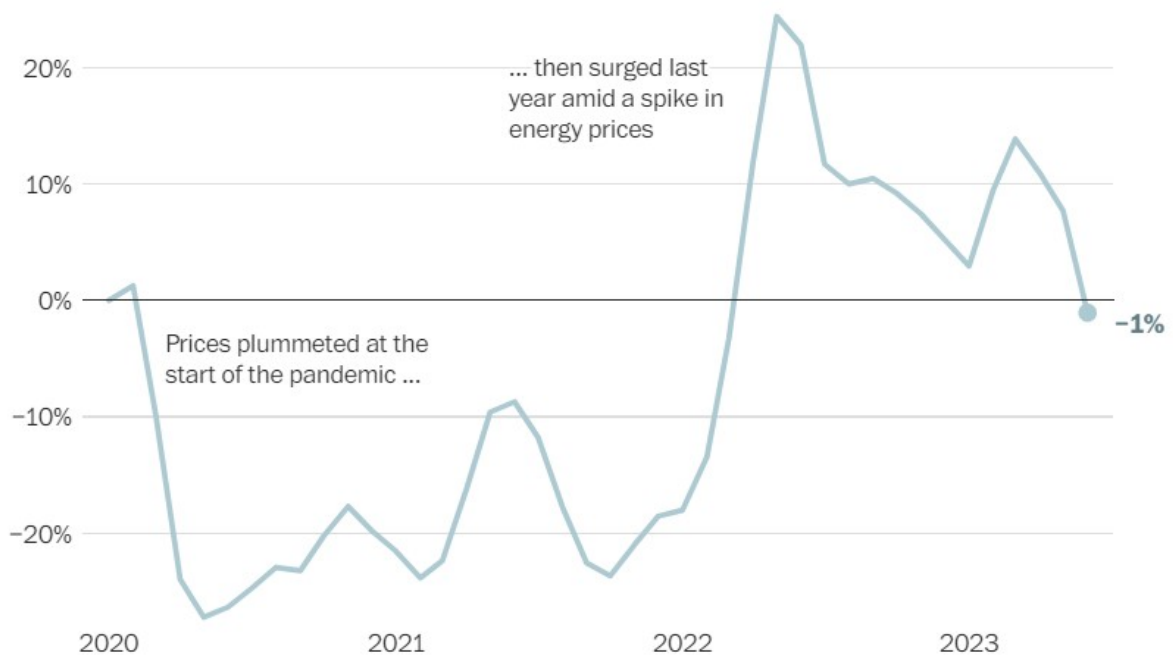


Source: Bureau of Labor Statistics

Airfare has declined to prices lower than they were a year ago. This is called price deflation.

Airfares have bounced around since the pandemic

Percent change in consumer price index since January 2020, seasonally adjusted

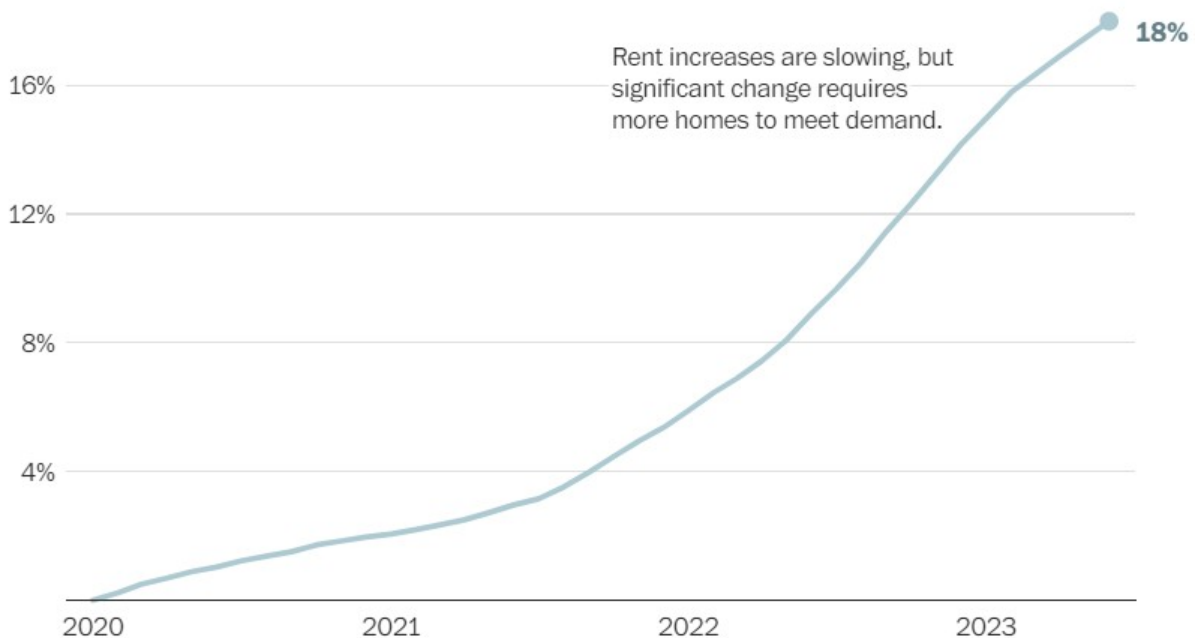


Source: Bureau of Labor Statistics

Rent has only continued to rise, but as you can see, the slope of it's growth has started to slow a tad.

Rent persists as a major driver of inflation

Percent change in consumer price index since January 2020, seasonally adjusted



Source: Bureau of Labor Statistics

As you can also see by reading the Bureau of Labor Statistics own statement on the chart, even Washington DC recognizes rents are climbing too fast (even though they don't calculate rents correctly). If you're a renter, you'll agree with me that rents have risen more than 20% year-over-year.

So, there you have it. That's why you can have "cooling inflation" and rising prices all in the same environment.

Thanks for bearing with me on that one! 😊

And here's the other kicker. The Fed's goal is to get inflation down to 2%. But last report had it climbing back up to 3.18% after it had dropped just below 3% the month prior. It's been a trickier cow to get back in the barn than the Fed had hoped. I believe this means the Fed will continue to raise rates until

inflation continues it's decline to a steady 2% (or until the Fed says it no longer needs to hit 2%).

On our end, even though the higher prices hurt our wallets, they help our investments. So, keep fighting the good fight – it will continue to pay off.

Sincerely Your We-Should-Call-The-War-On-Inflation-A-Conflict-Of-Interest Financial Advisor,

Walt

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