

Financial FAQs

What Inflation?

By **Harlan Green** / Special to CASA

STOCKS AND BONDS ARE RALLYING, and it looks like inflation is still falling, rather than rising enough to boost household incomes and produce profits. There is some inflation in food and housing though it is mostly rising rents for renters, rather than housing prices, which are still some 20 percent below their bubble highs. That is the problem, mostly due to so many people still out of work and renting, and so unable to push wages and salaries higher.

Though prices are no longer falling, they are not yet rising overall, either. And the reason is clear. Household incomes aren't yet above the current low inflation level of 1.9 percent, which means they are barely keeping up with rising food, housing, rents, and services prices. If the CPI consumer price index seems suspect, then we can look at the various other indexes, including the Personal Consumption Expenses deflator followed by the Fed.

On a year-over-year basis, the Cleveland Fed's median CPI rose 2.2 percent, the trimmed-mean CPI rose 1.9 percent, and the CPI less food and energy rose 1.9 percent. Core PCE was 1.5 for June and increased just 1.5 percent year-over-year. Inflation has struggled to even reach two percent, the Fed's stated goal. Whereas during the 1990s, and

the longest growth cycle in our history, it remained closer to three percent.

And we know that low inflation is a sign of slow growth, now in the two percent range, just as in Europe. Policy makers should know how to boost inflation—raise household incomes by supporting policies that create more jobs, of course. Yet Congress resists any kind of programs that would put more money in consumers' pockets—such as spending on public infrastructure maintenance and repairs, education, and even raising the minimum wage.

Government expenditures are at an all-time low, as a percentage of GDP, while some \$10.8 trillion in cash and cash equivalents sit in financial institutions driving up stock and bond prices. Yet private businesses that should benefit from these assets, aren't investing sufficiently in new plants and equipment domestically. They are investing overseas, of course, where costs are lower.

That leaves governments and consumers to boost economic growth, and as in the New Deal, consumers can't spend more if they can't find jobs.

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