

Is Today's Inflation Accurately Measured?

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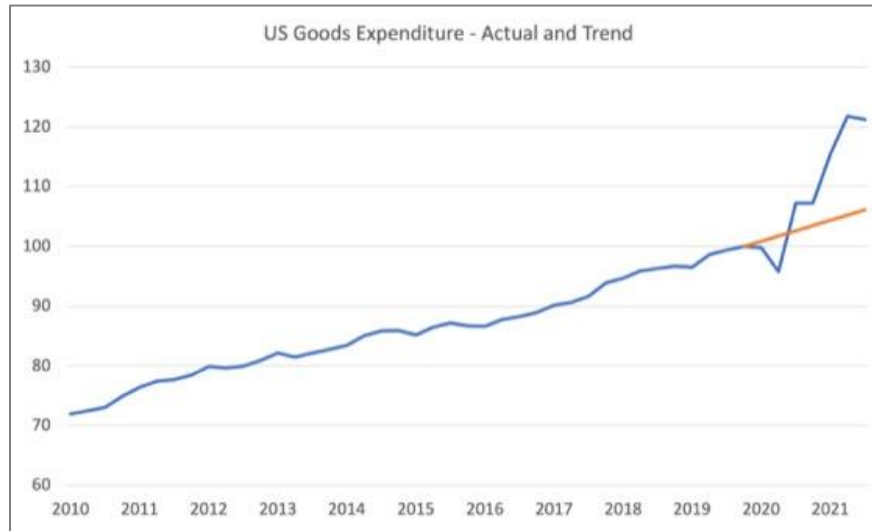


Chart Source: *Bilboeconomics*

Each day we are bombarded with the media “chorus” telling us how inflation is hurting everybody and how the fed must get tough by raising interest rates and the government must curtail spending. This sounds like a clarion call to undermine the greatest period of economic growth in U.S. history but where conventional analysis is ill-suited. What is wrong with using this traditional evaluation? Here are just a few reasons that do not allow an objective comparison with past periods of inflation:

1. The federal government spent trillions of dollars on erasing the pandemic,
2. The Federal Reserve provided unlimited amounts of low interest loans to keep the economy afloat,
3. Individuals and companies received forgivable loans to tide them over during the crisis,
4. Healthcare to help overcome the Covid virus and variants was provided essentially for free even if it would have cost hundreds of thousands of dollars,
5. The federal government is picking up the tab for current costs associated with the pandemic, and
6. These government policies have created record consumer and corporate wealth.

The chart above reflects the impact of that government spending on consumer wealth and how that prosperity has been turned into expenditures adding to overall economic growth. Under such favorable circumstances there will be “inflation” as prices for goods and services are bound to rise due to a shortage of supply. The GDPNow economic growth forecast for the fourth quarter is currently 7%, about twice what the estimated sustainable growth rate of the economy will track over time. So, when some economist tells you that used car prices are the main cause of inflation recently, tell that to the guy who sold the car!