Weekly Commentary

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Inflation still high on everyone's, and Fed's, mind

The fact that inflation slowed in November to an annualized 7.1% isn't likely to give much relief on your next trip to the grocer or gas station. But if it is true that the Consumer Price Index reached a peak in October when it rose 7.8%, we might yet see the economy cool without a freeze. The Federal Reserve seems to think it is possible, using "all of its tools" to derail inflation without doing the same to the U.S. That played out at the Federal Open Market Committee meeting last week. It announced a half-point increase in the benchmark fed funds target rate, a hike 25 basis points less than the last four. The new range is now 4.25-4.50%, a 15-year high.

But the Fed threw a curveball with its Summary of Economic Projections, in which members increased projections for a terminal rate to a range of 5-5.25% to be reached in mid-2023. This implies—always a precarious position for investors—that after another set of hikes amounting to a total of 75 basis points—they expect to hold rates until 2024.

If this discrepancy means anything it's that the Fed needs more data, specifically about inflation. In the meantime, consumers will have to deal with it over the holidays and into 2023.

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