



An SEC-registered Investment Advisor

“Inflation” vs. Inflation

Do Bond Yields Predict the CPI?

(No. They do something even better.)



The CPI, or Inflation?

“Based on in-sample and out-of-sample predictive exercises, we find that the expectations of professional economists and businesses, as demonstrated by the Blue Chip and Atlanta Fed measures, have provided substantially **more accurate predictions of CPI** inflation one-year out compared to those of households. The accuracy of the Cleveland Fed inflation expectations model, which could be viewed as reflecting the expectations of the financial markets, is somewhat behind these other two measures.



Whose Inflation Expectations Best Predict Inflation?

*Randal Verbrugge and Saeed Zaman**

We examine the predictive relationship between various measures of inflation expectations and future inflation. We find that the expectations of professional economists and of businesses have tended to provide more accurate predictions of future inflation than the expectations of households and of financial market participants. However, the forecasts coming from a relatively simple and popular benchmark inflation forecasting model have historically been roughly as accurate as the expectations of businesses and professional economists.

Inflation readings fell as economic activity slowed in 2020, but when the economy began to recover, inflation rebounded as well—quite sharply, in fact. By June 2021, the consumer price index had increased 5.4 percent over the previous 12 months, putting inflation at its highest reading since the summer of 2008. Since then, it has remained elevated, registering 5.4 percent in September. Considerable attention has turned to the question of whether this surge in inflation will persist

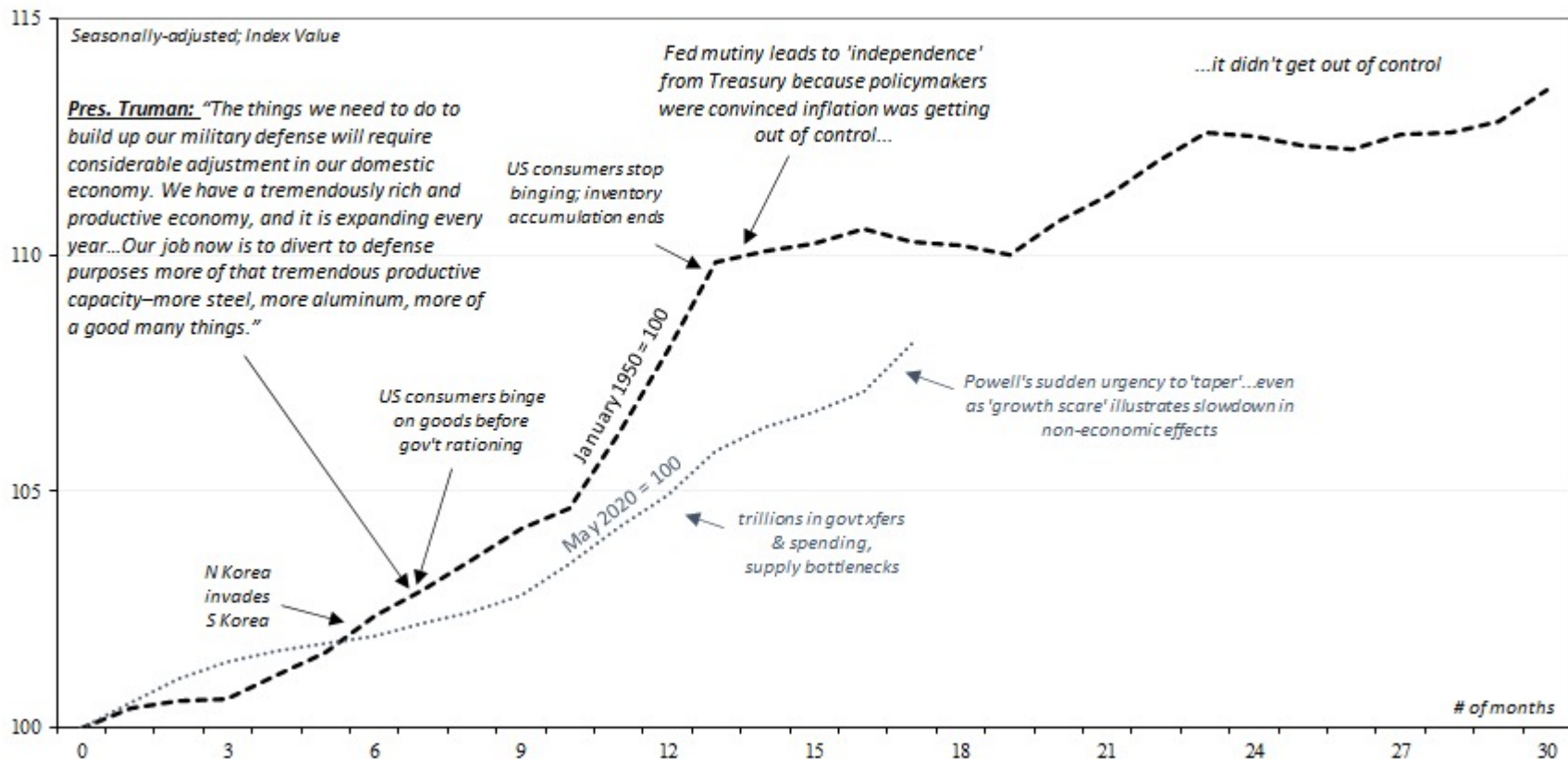
been around the 2.5 percent to 4.7 percent range since June. By contrast, one-year-ahead inflation expectations from the Federal Reserve Bank of Cleveland's inflation expectations model, which is based on financial-market data, has averaged 2.2 percent since June (and currently stands at just 1.8 percent). Given these mixed signals, whose inflation expectations provide the best signal about the inflation outlook?

Economic Commentary

*Cleveland Federal Reserve, Number 2021-19
October 18, 2021*



Consumer Price Index



The CPI, or Inflation?

“ In retrospect, the early 1950s mark a turning point in the American inflation experience. The decades leading up to the Korean war era featured alternating periods of sharp inflation and genuine deflation, with the former generating active efforts to control prices and the latter generating fears of recession and, sometimes, active efforts to raise prices. Although severe inflation and even price controls would return, **the post-Korean war era would look different** from the 1941–1951 period, with less volatility and **a near absence of deflation.**

Monthly Labor Review
Bureau of Labor Statistics
April 2014



ARTICLE

APRIL 2014

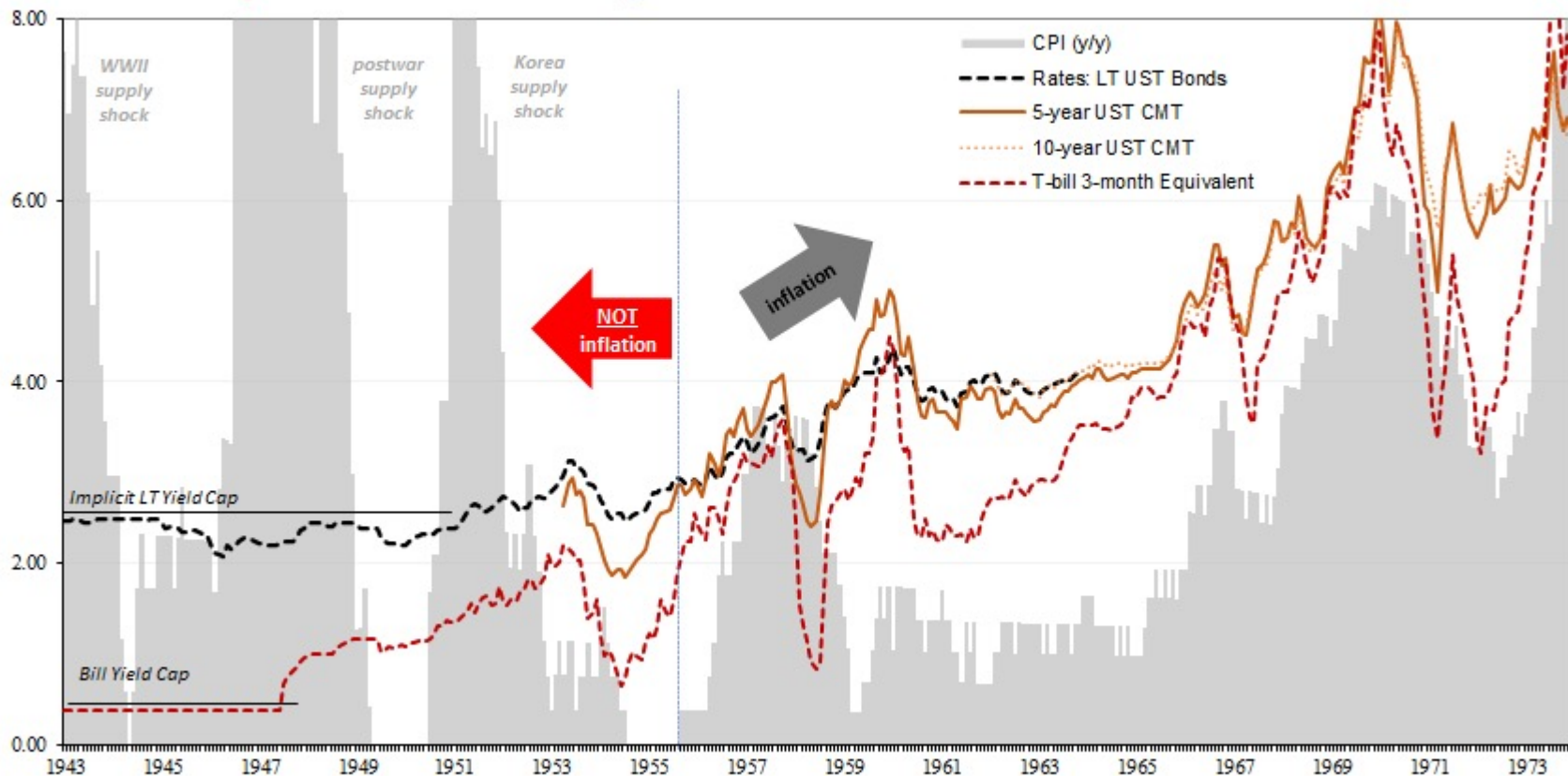
One hundred years of price change: the Consumer Price Index and the American inflation experience

For 100 years now, the Consumer Price Index has measured price change in the U.S. economy. Breaking the 100-year period into several distinct subperiods, this article examines major patterns and trends in price change during each one and highlights notable features of the CPI data. Also discussed are the reaction of the public and policymakers to the inflation of the day and the inflation experience of Americans in each subperiod.

The year 2013 marked, in a sense, the 100th anniversary of the Consumer Price Index (CPI), because 1913 is the first year for which official CPI data became available. For 100 years, the index has been a major measure of consumer inflation in the U.S. economy, through war and peace, booms and recessions. Over those 100 years, the general public and policymakers have focused almost constantly on

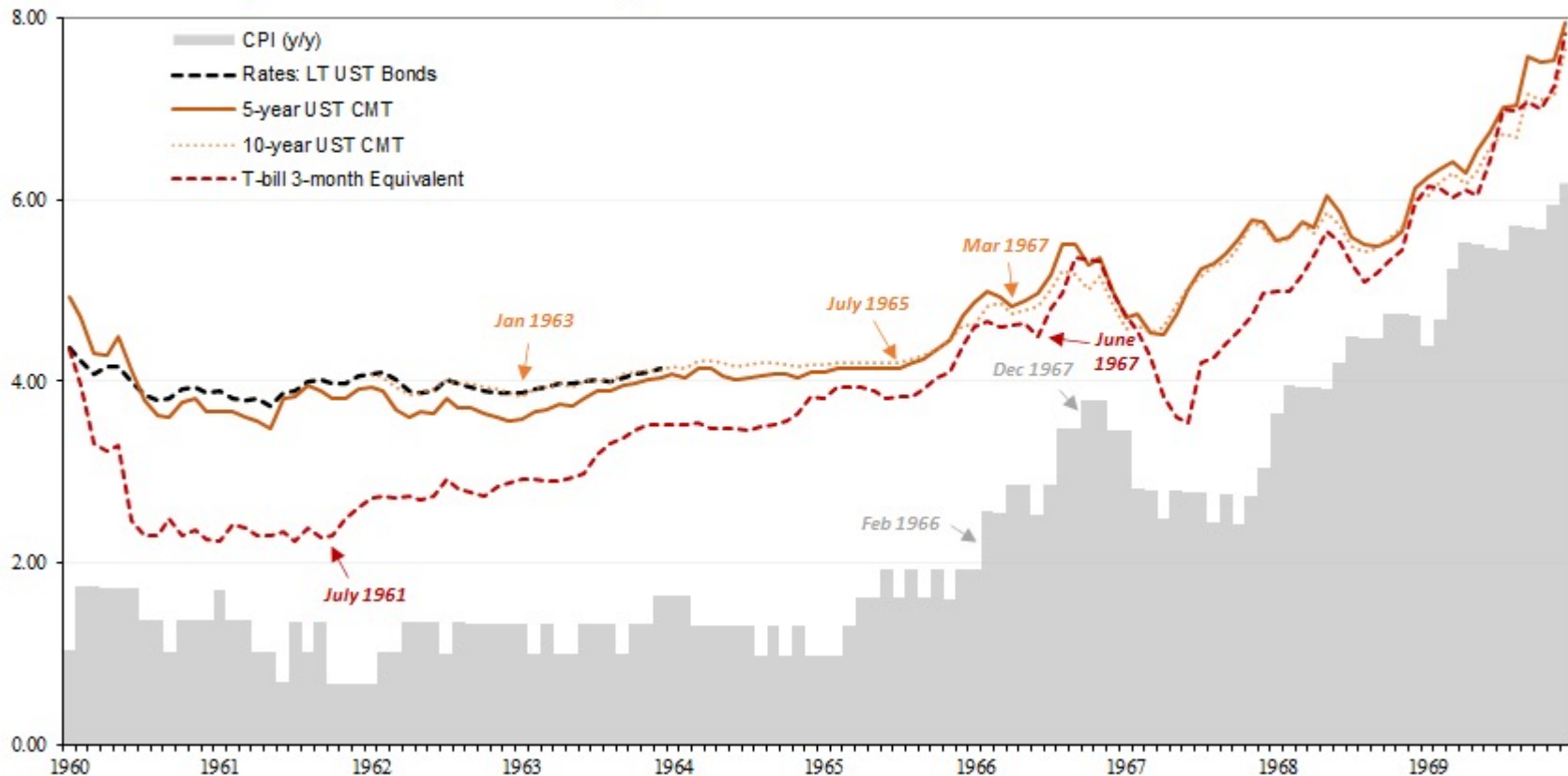


Treasury Market Inflation Component



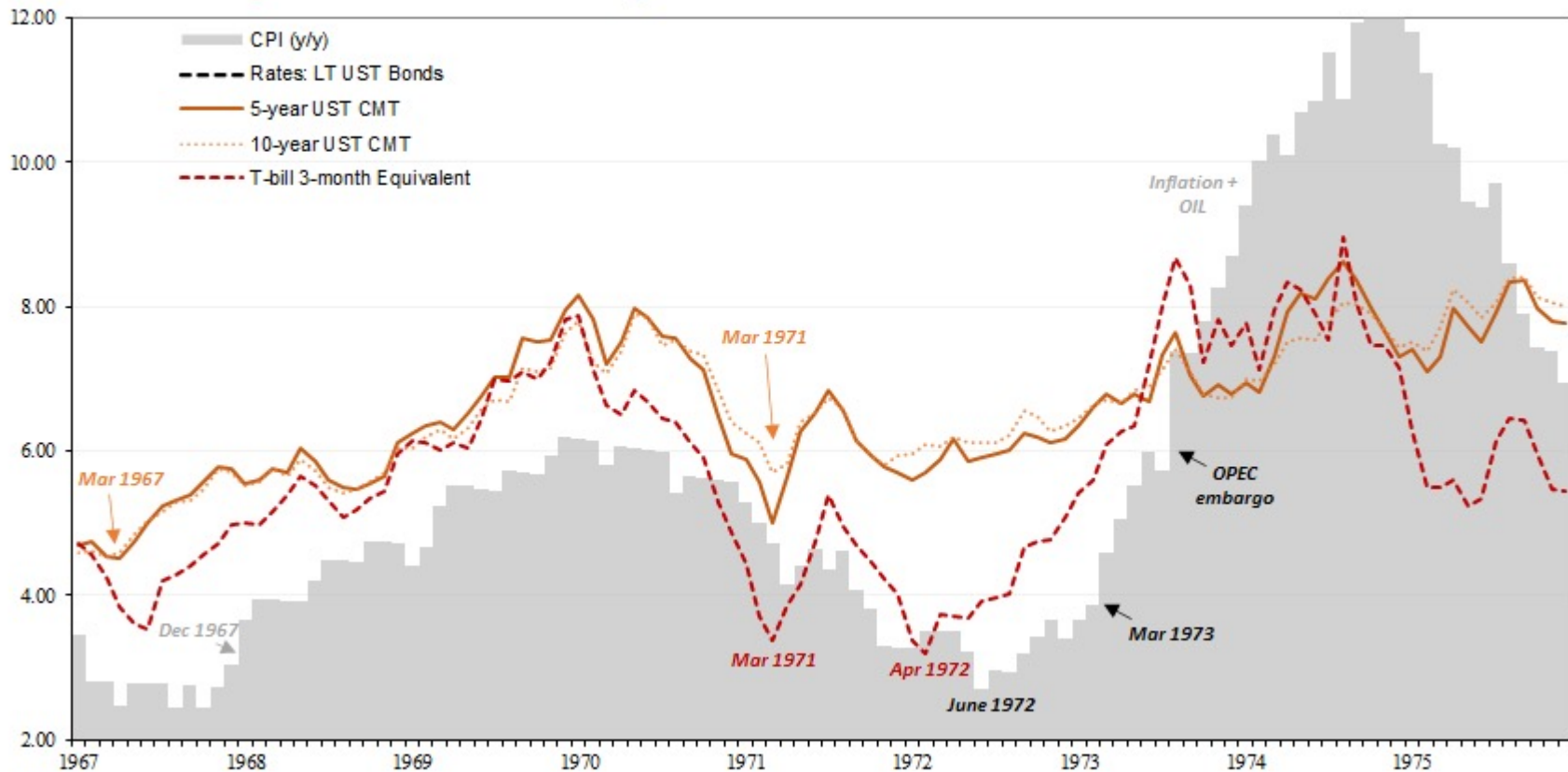


Treasury Market Inflation Component



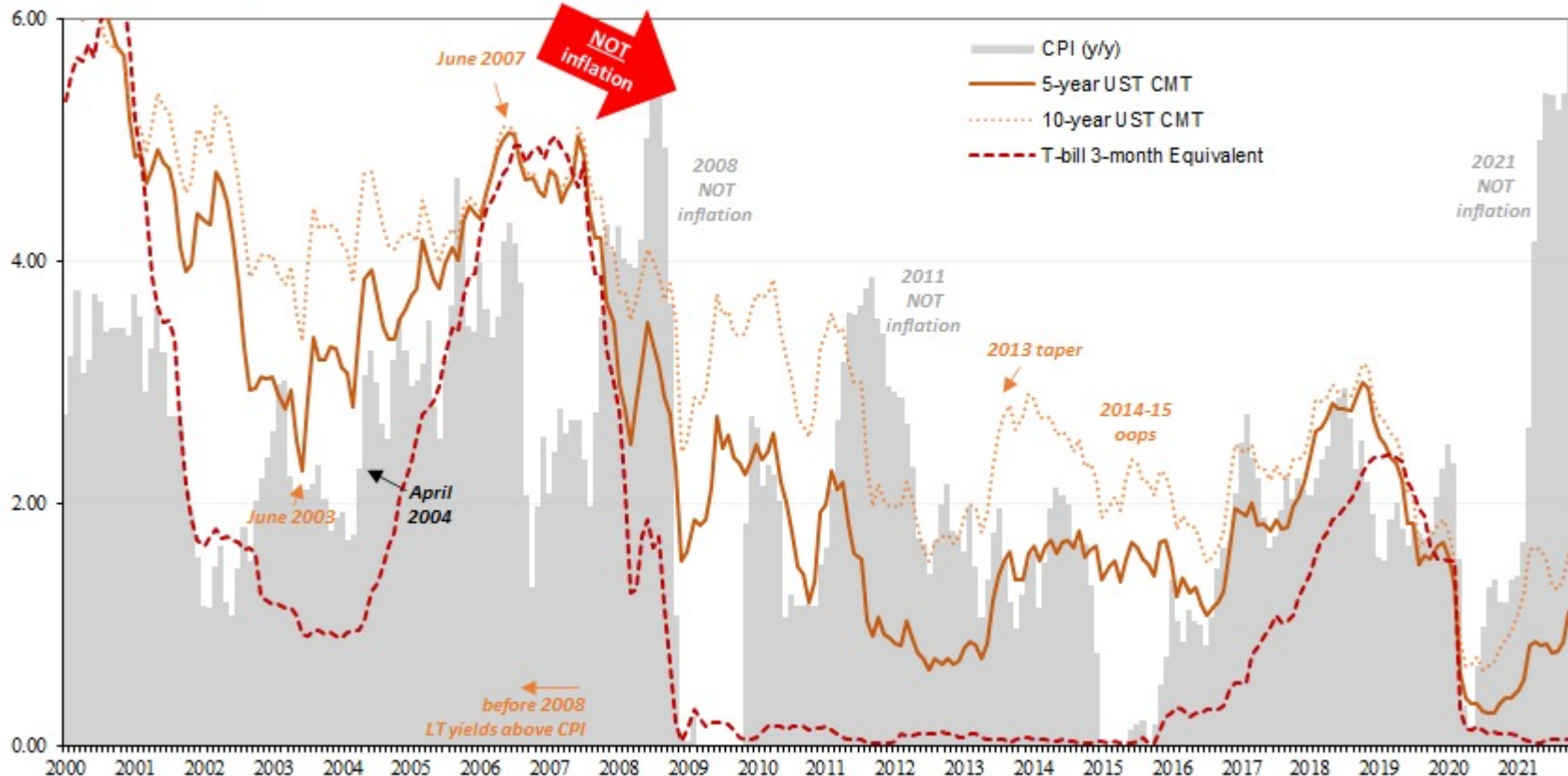


Treasury Market Inflation Component





Treasury Market Inflation Component



“Inflation” vs. Inflation

“ **Inflation is always and everywhere a monetary phenomenon** in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output.

Milton Friedman

Counter-Revolution in Monetary Theory.

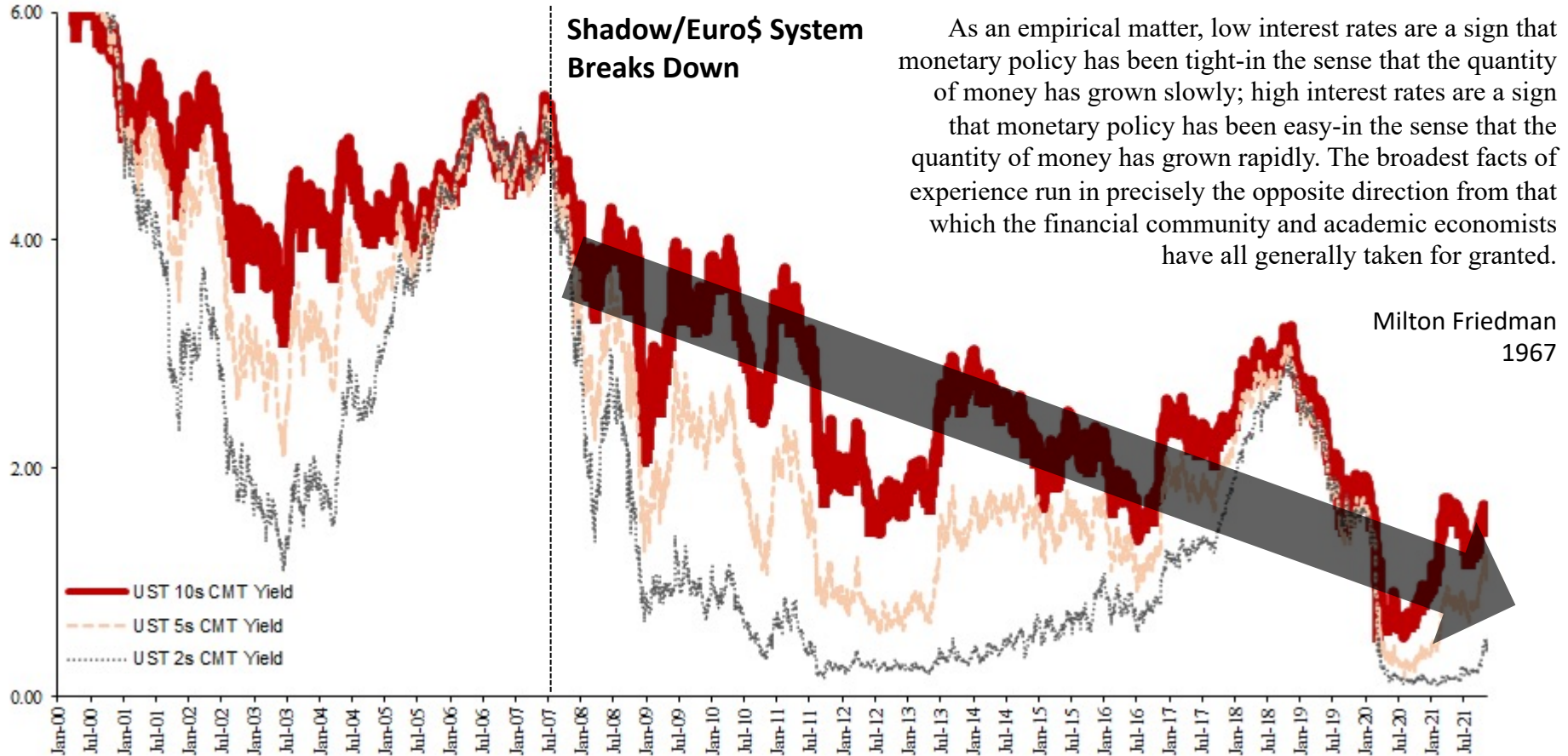
Wincott Memorial Lecture, Institute of Economic Affairs, Occasional paper 33.

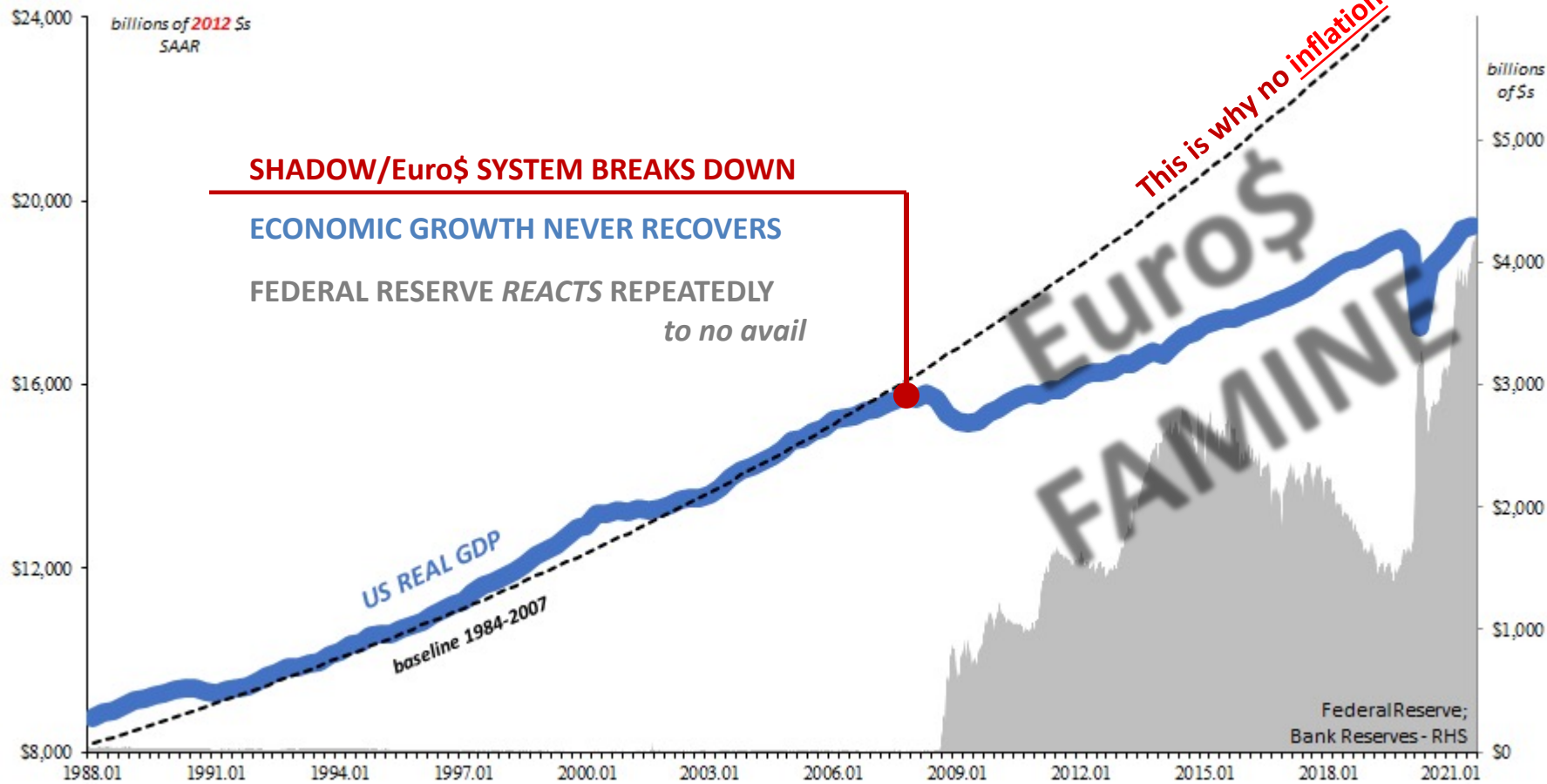
“ As a consequence, while of necessity it must be the case at the end of the day that **inflation has to be a monetary phenomenon**, a decision to base policy on measures of money presupposes that we can locate money. And that has become an increasingly dubious proposition.

Alan Greenspan

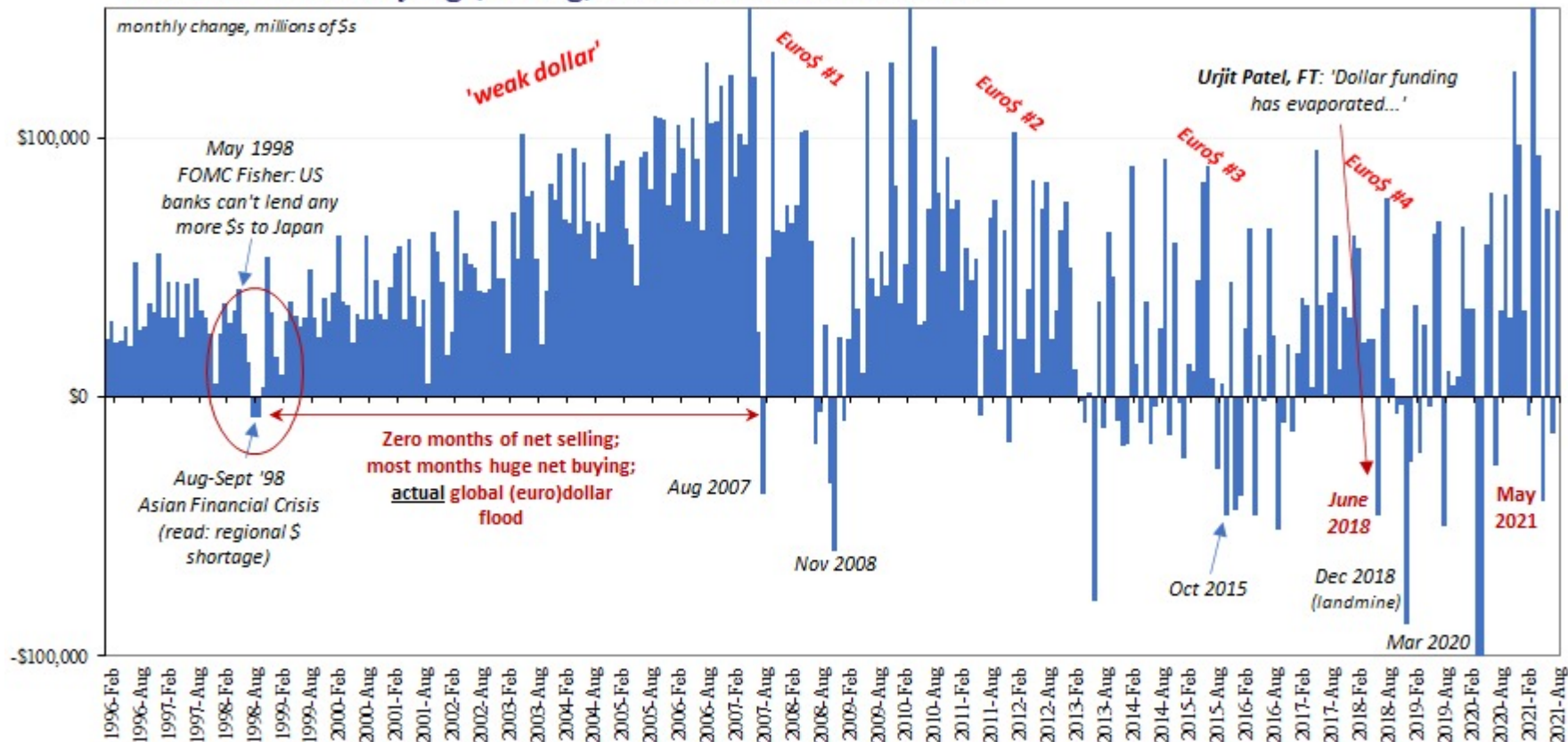
FOMC Meeting Transcript

June 2000

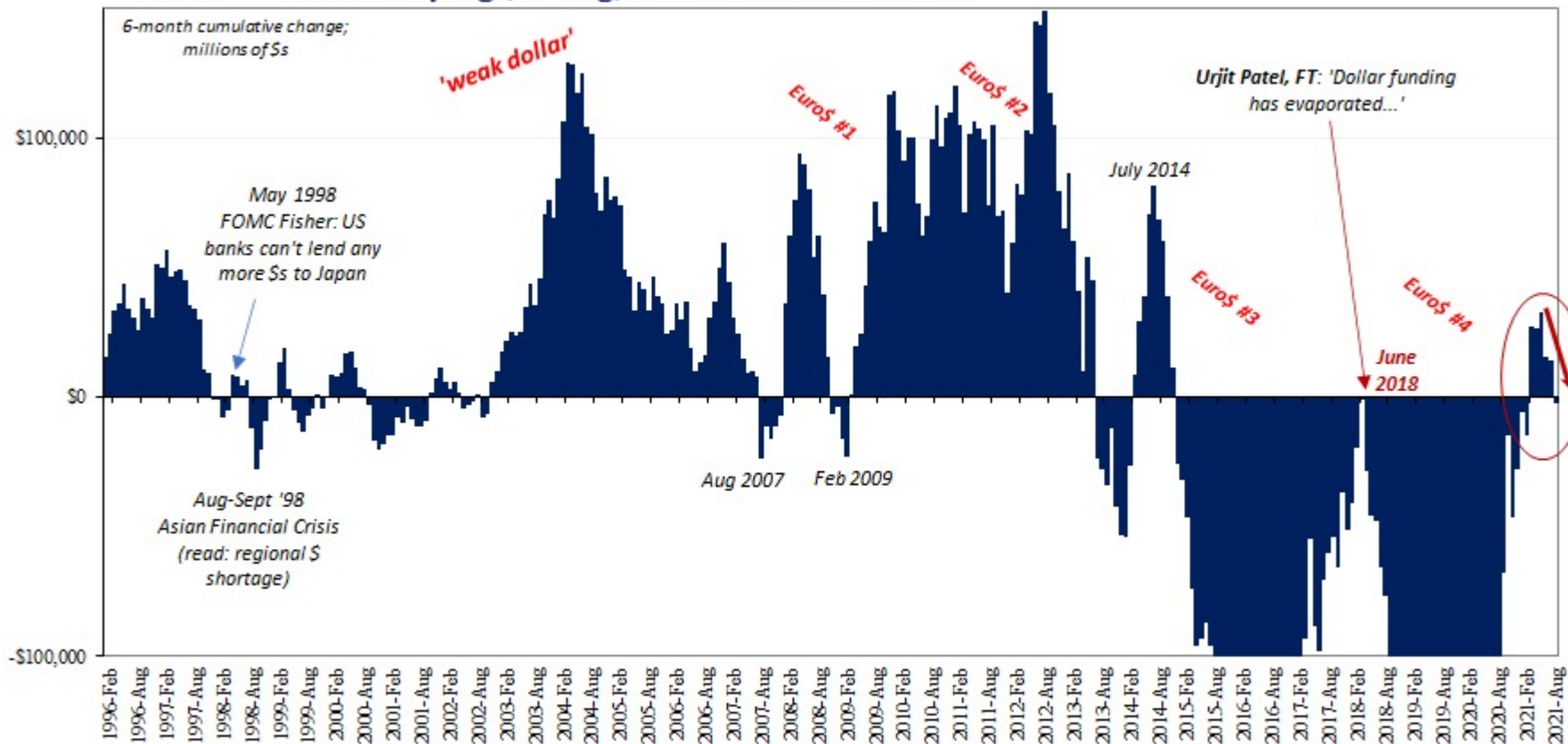




US TIC - Total Buying (Selling) of LT Domestic Securities

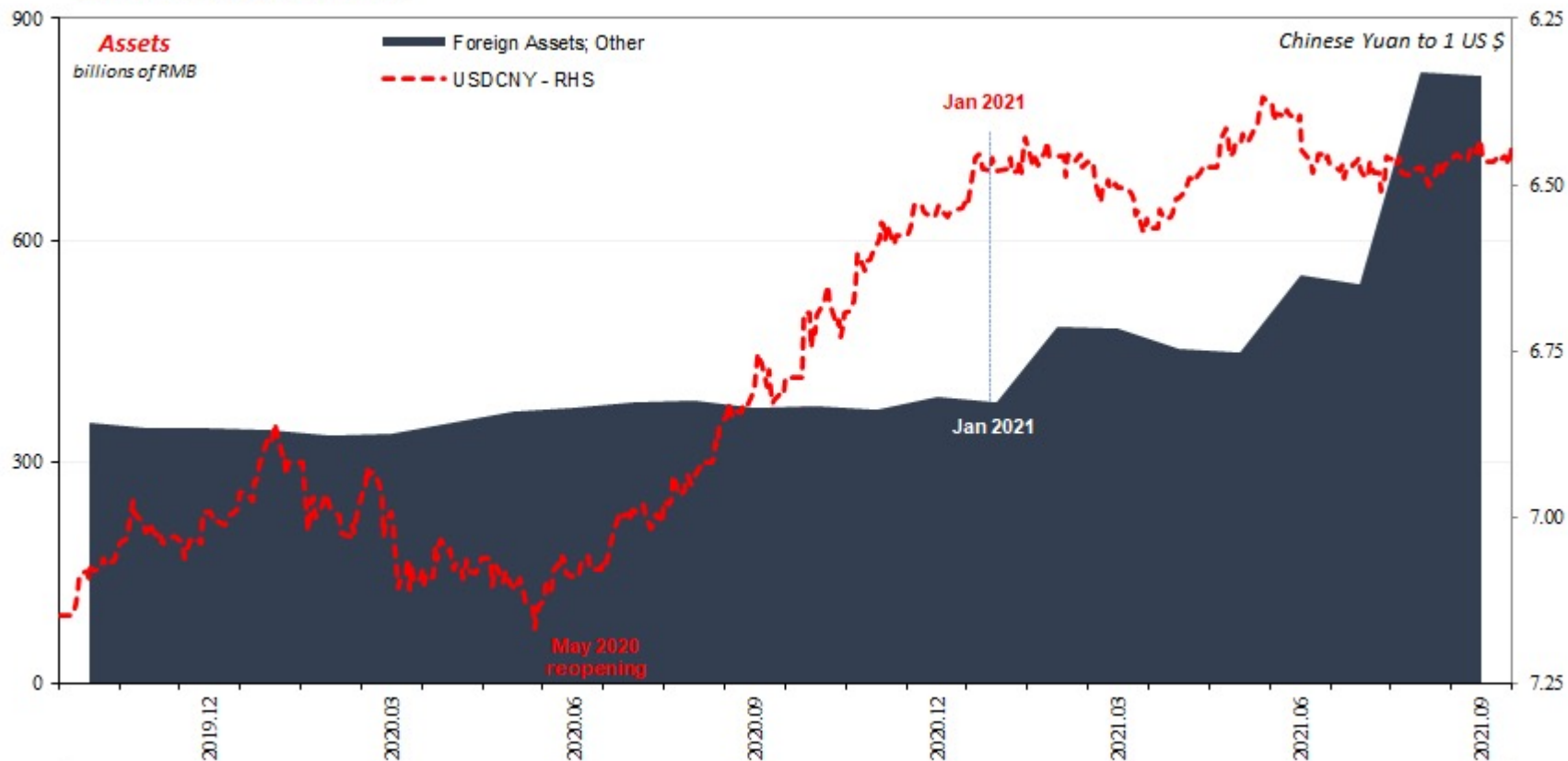


US TIC - Official Buying (Selling) of UST Bonds & Notes



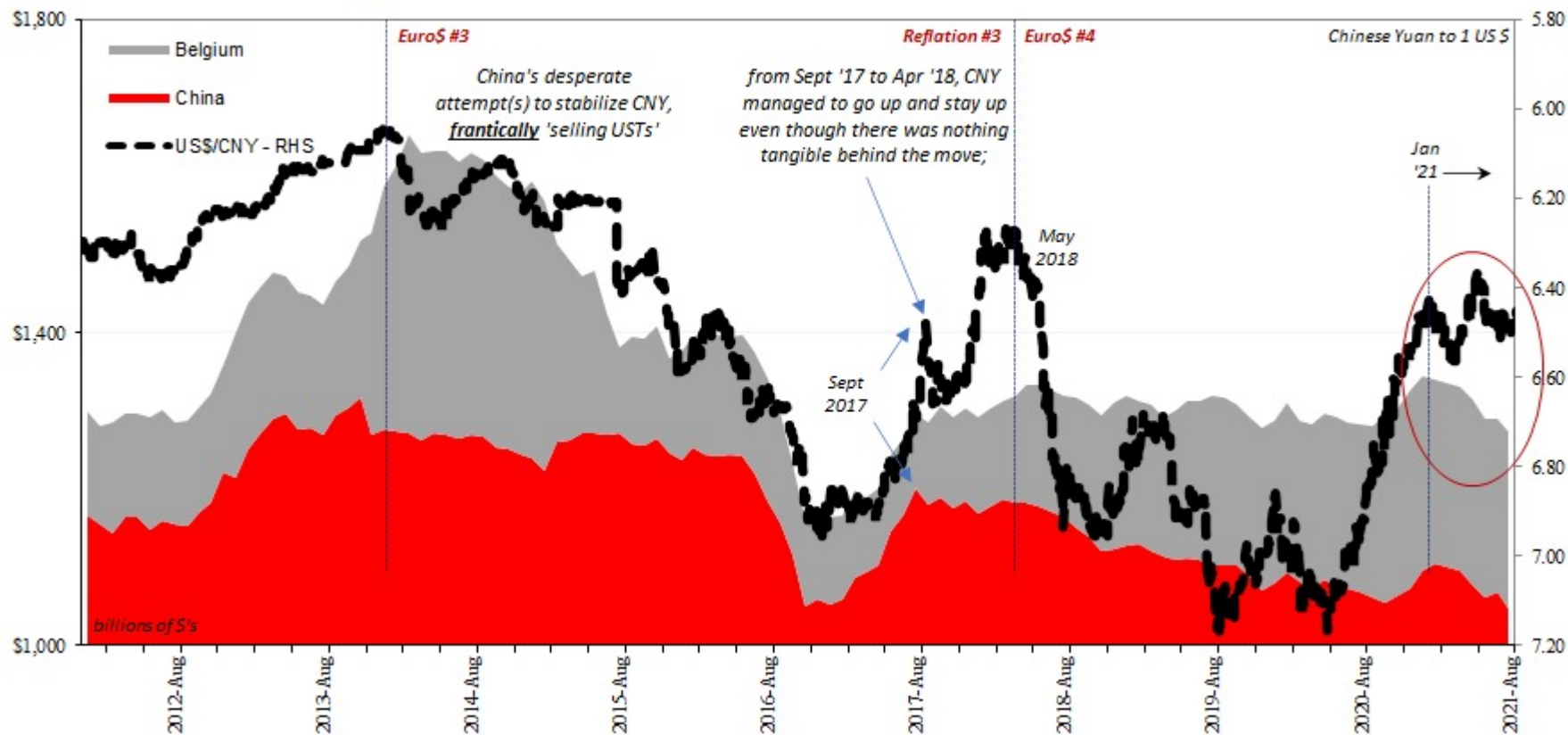


PBOC Balance Sheet



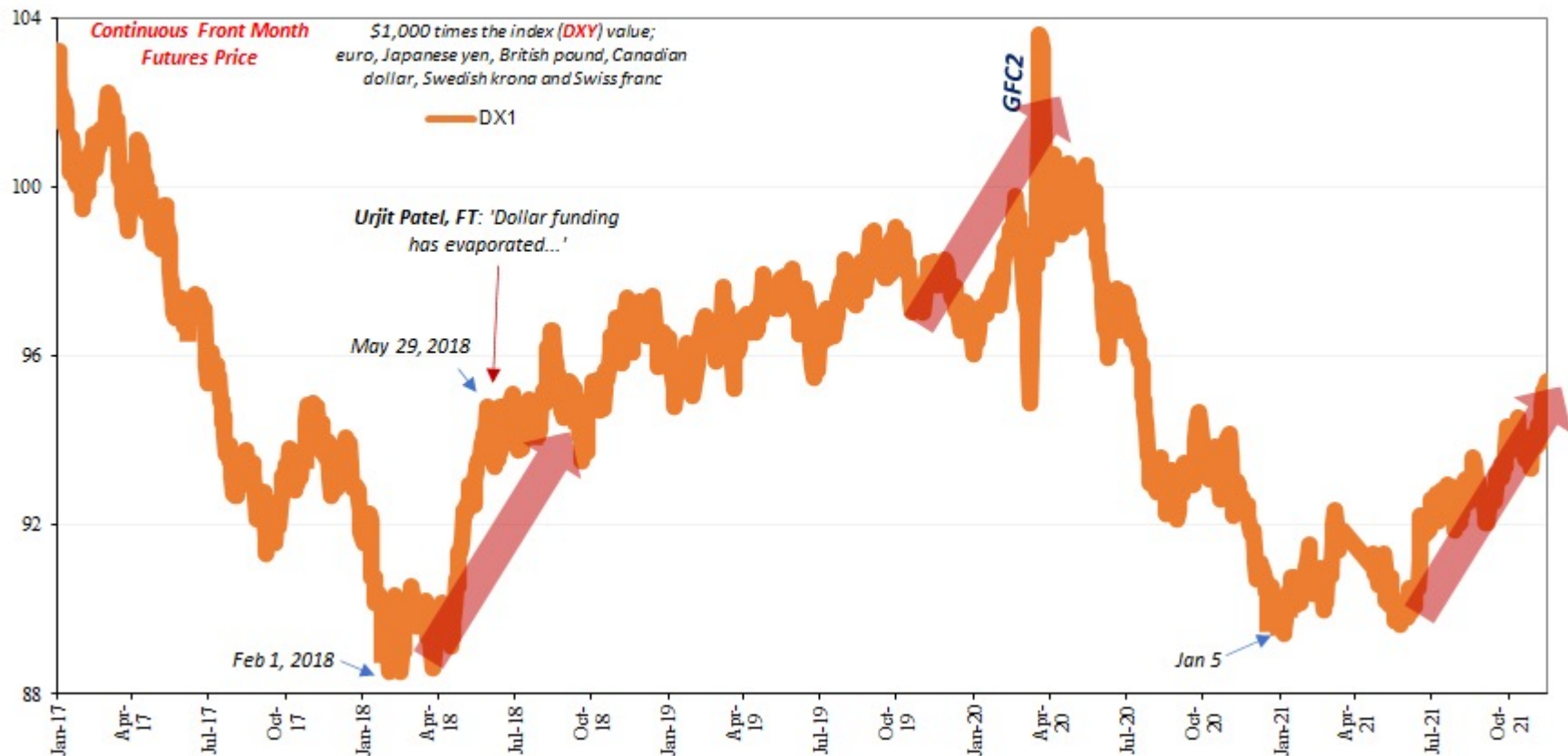


US TIC - Holdings of UST



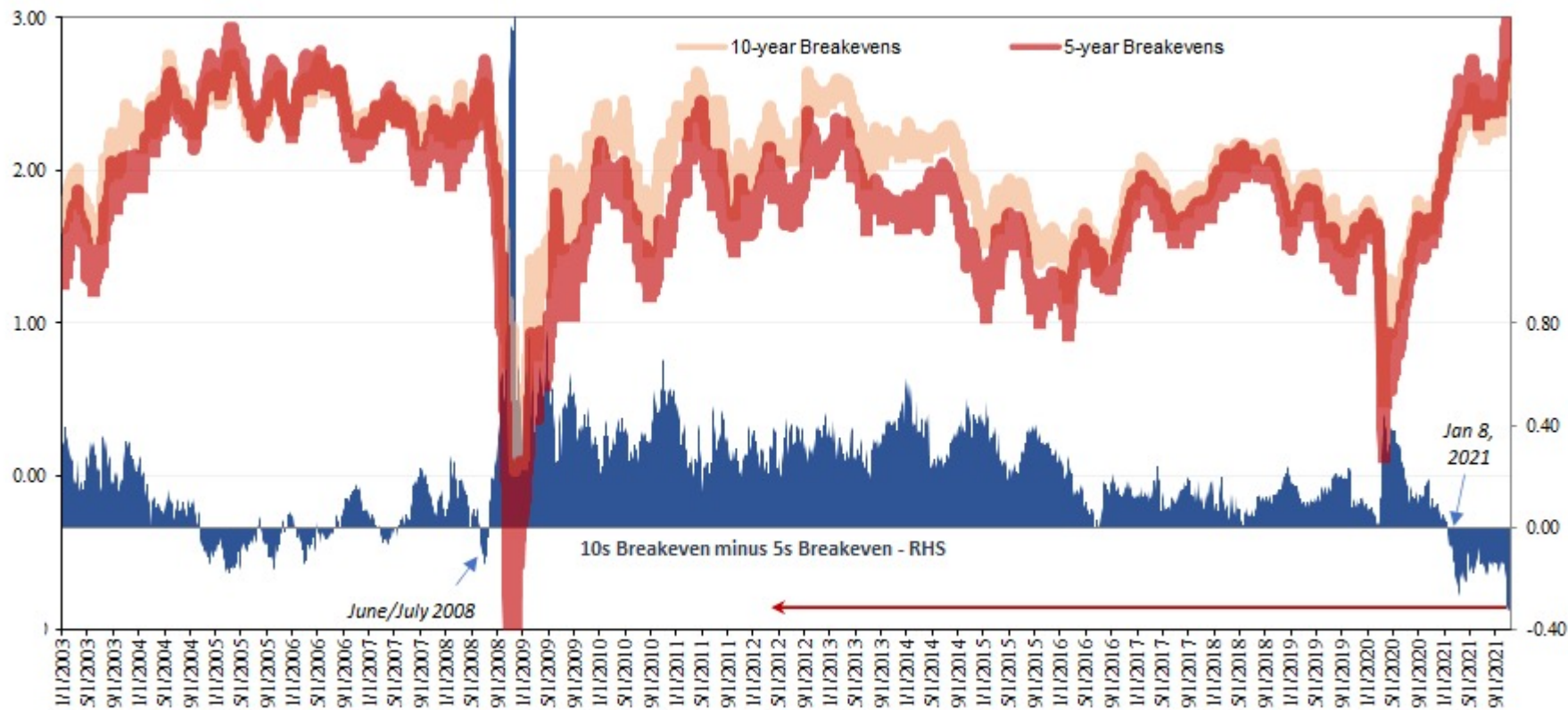


ICE: US\$ Index Futures DX1

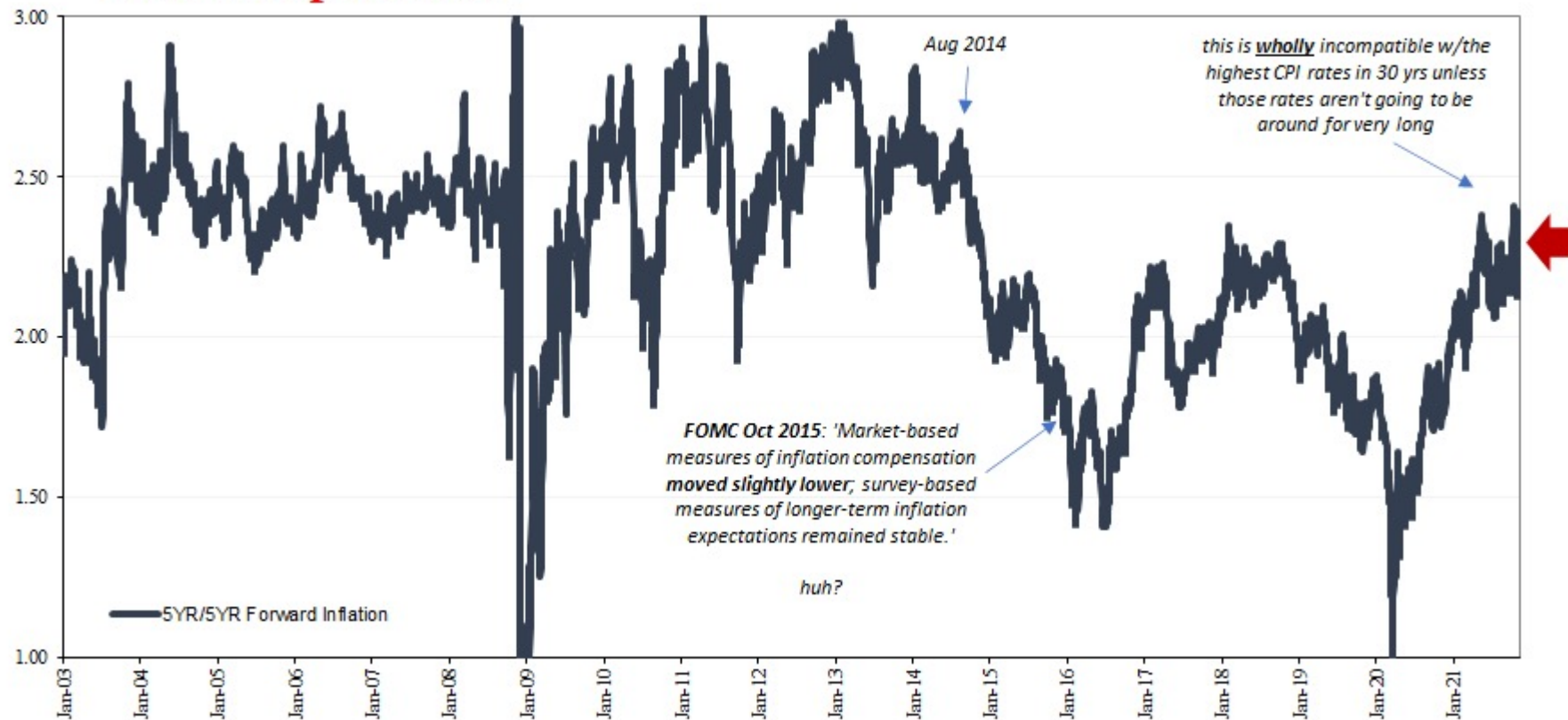




TIPS Yields & Breaks



Inflation Expectations





“Inflation” vs. Inflation

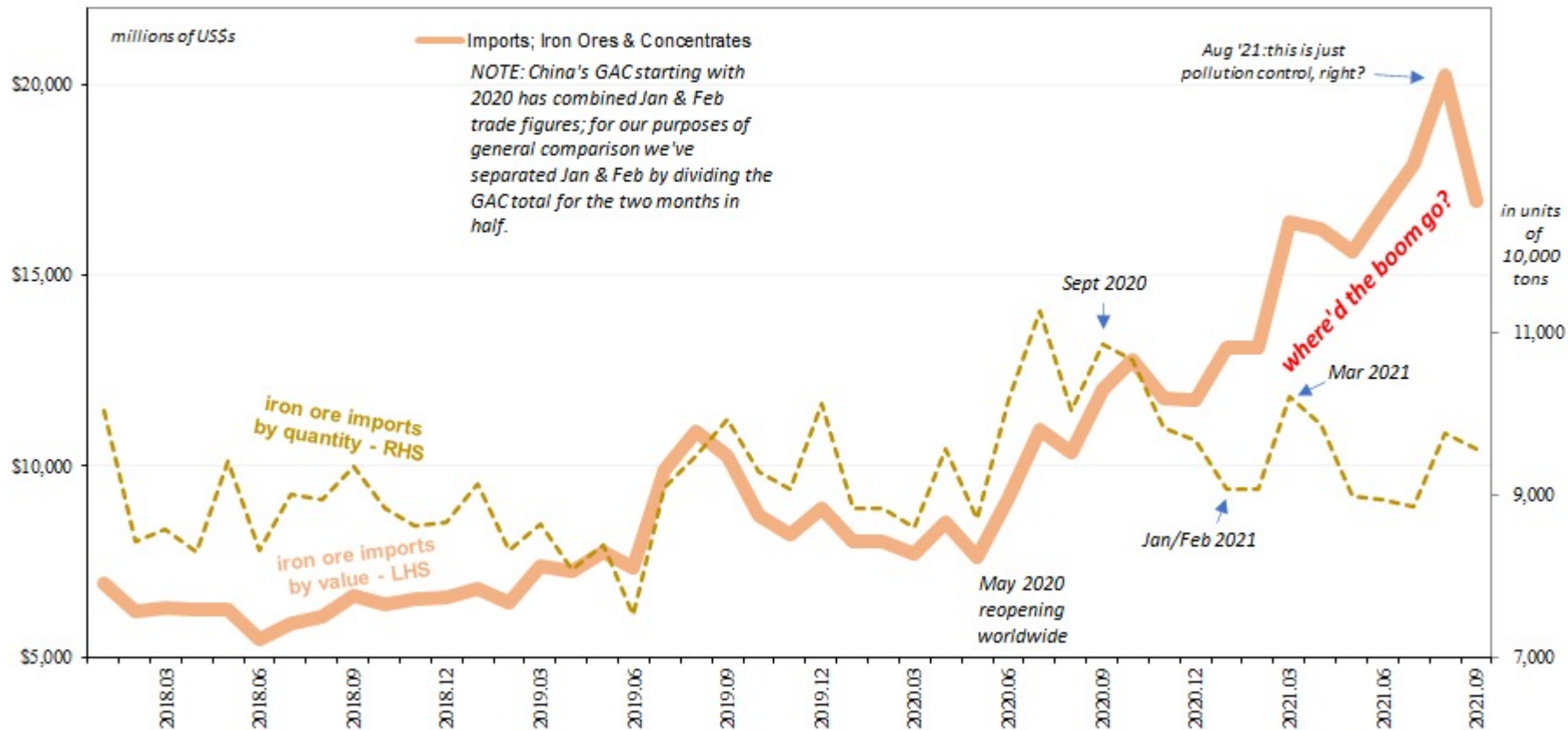
“ It’s not that we don’t have ketchup. We have ketchup, but in different packages. The strain on demand started when people stopped going to restaurants and they were ordering takeout and home delivery. There would be a lot of packets in the takeout orders. So we have bottles; we don’t have enough pouches. There were pouches being sold on eBay.

Miguel Patricio, CEO of Kraft Heinz

Time Magazine Interview

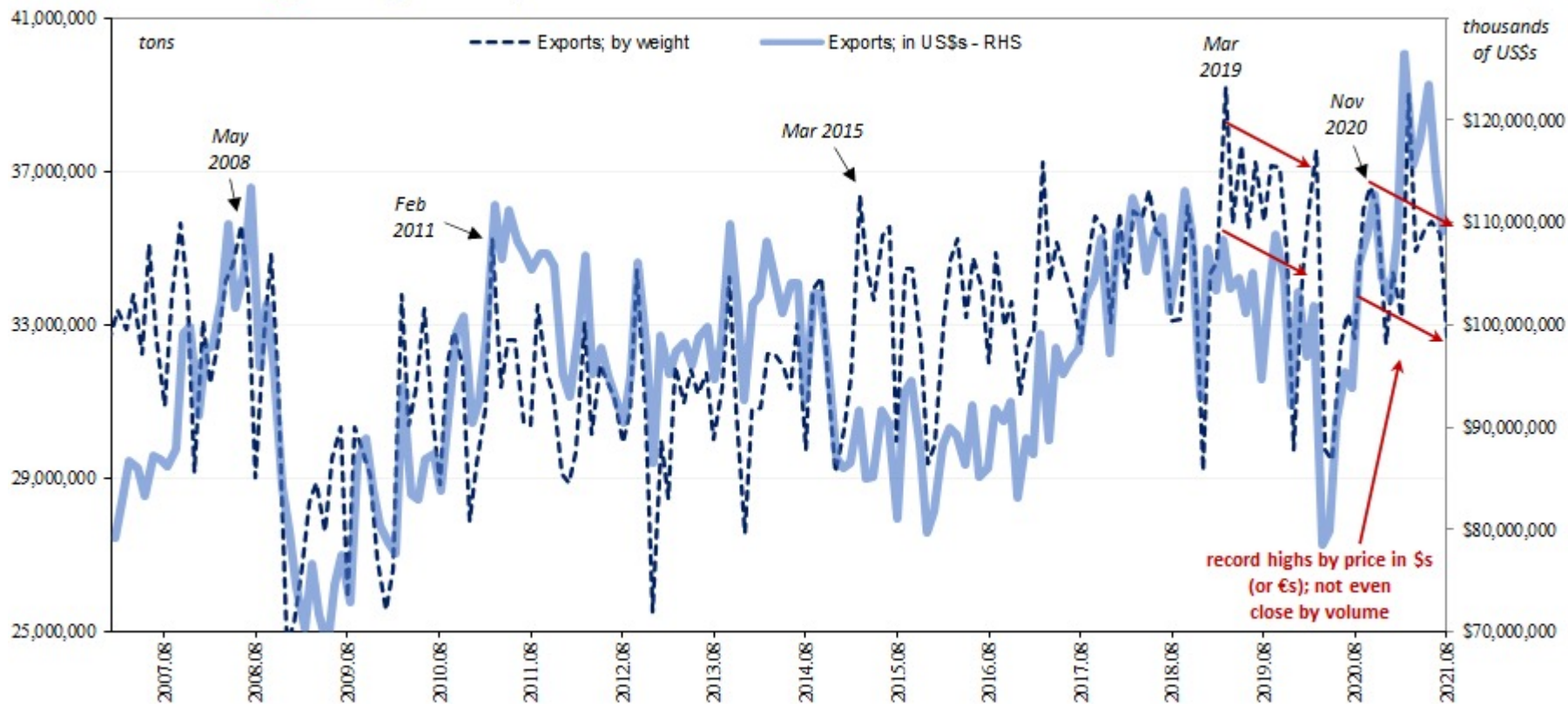
June 13, 2021

China Imports

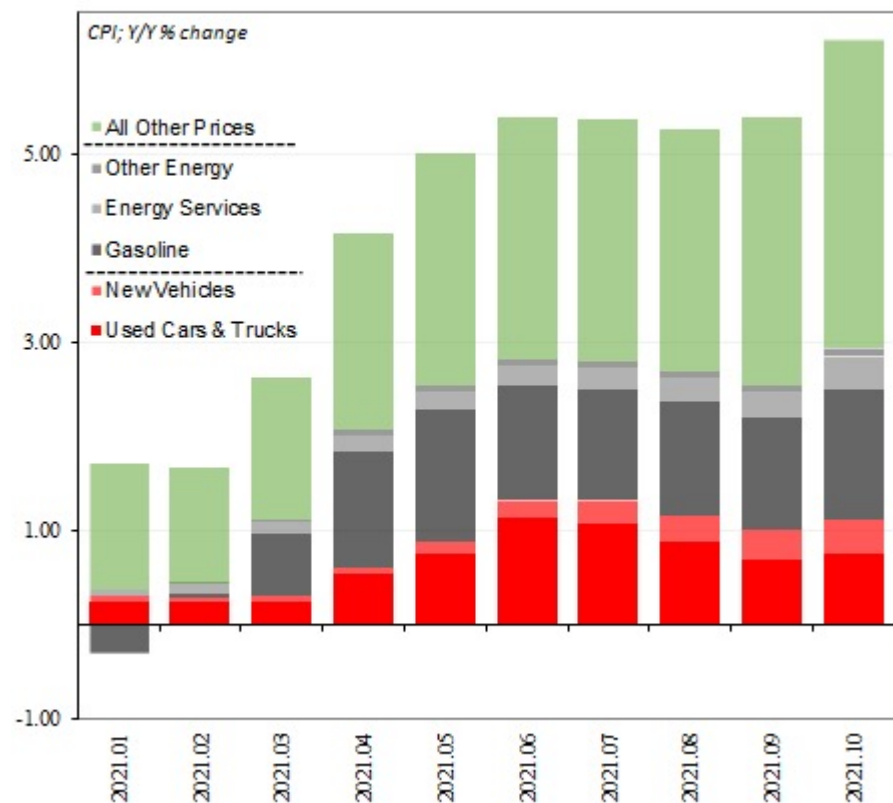




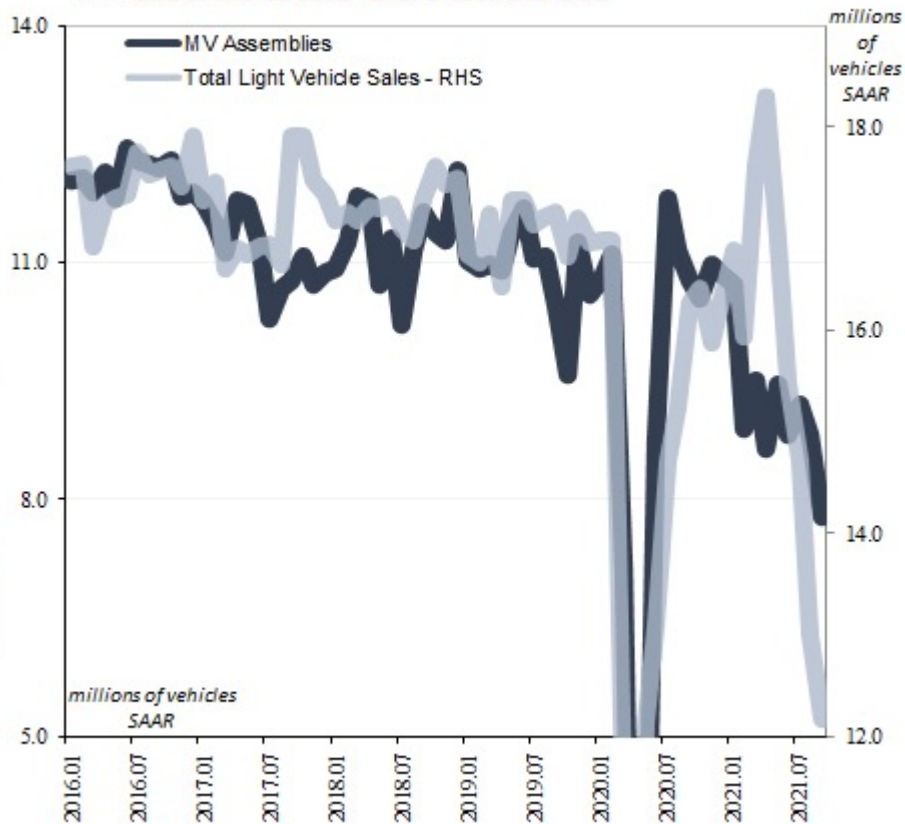
Germany Foreign Trade, NSA



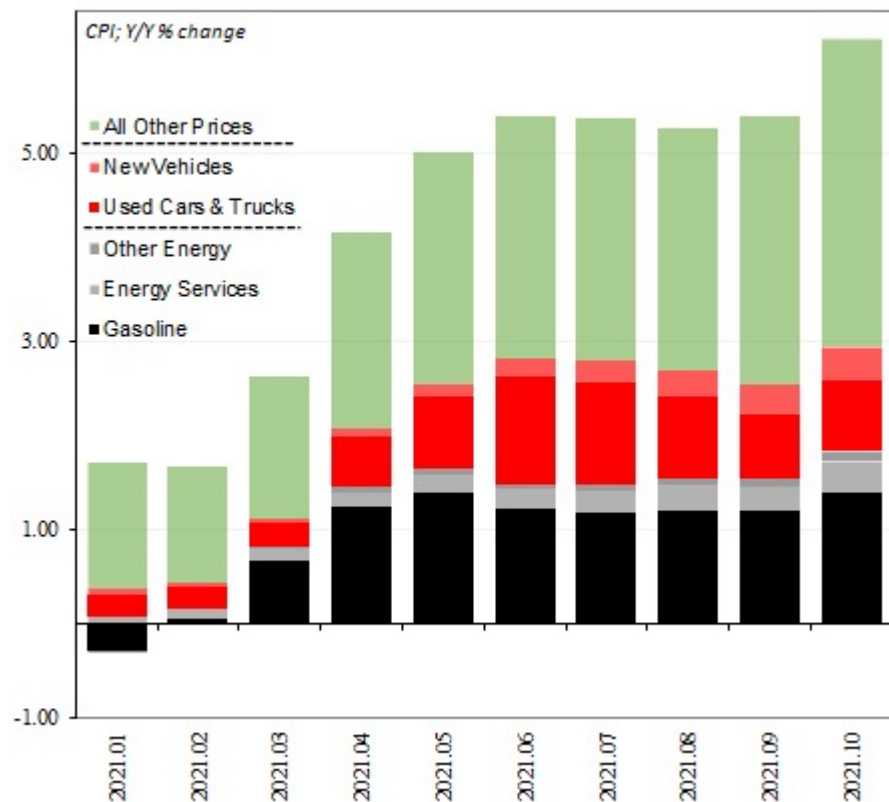
CPI Contributions



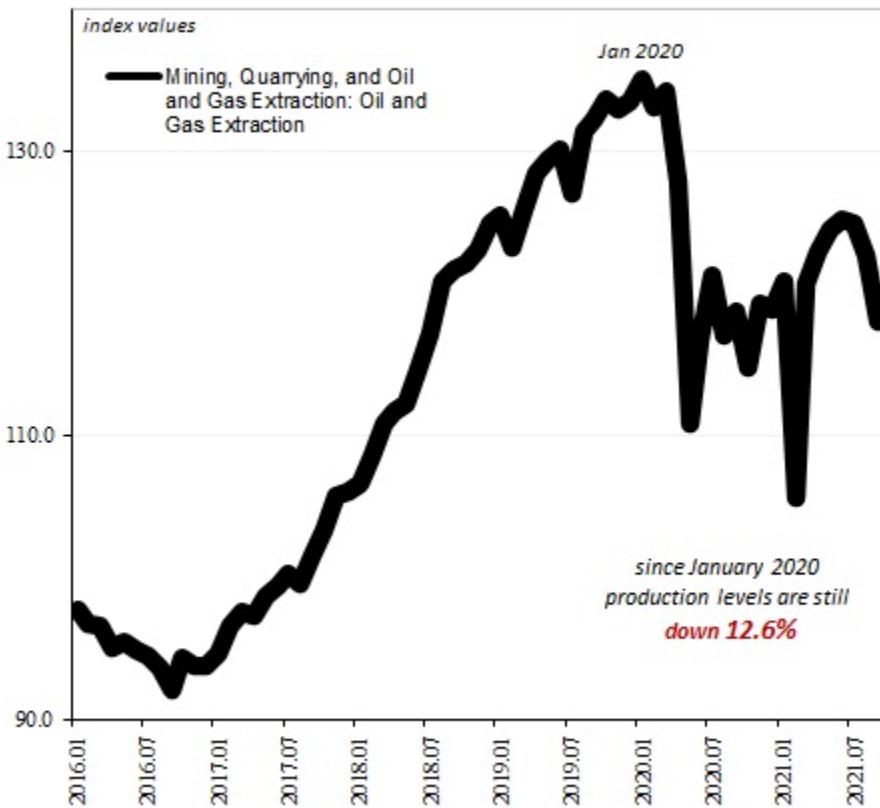
US Industrial Production



CPI Contributions



US Industrial Production





“Inflation” vs. Inflation

Do Bond Yields Predict the CPI?

(No. They do something even better.)



CONCLUDED

