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Macro Roundup Article

Headline: Transitory Disinflation

Article Link: https://fedguy.com/transitory-disinflation/

Author(s)	Joseph Wang
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Tweet: .@FedGuy12 argues that recent disinflation in the US has been driven by one-off improvements in supply chains and higher labor force participation and that any easing of financial conditions might lead to higher demand and above-target inflation.

Summary: The recent bout of disinflation likely occurred from both improvements in supply and decreases in demand, but both effects are fading away. Supply improvements are largely over, and the Fed's anticipated pivot may rekindle demand both domestically and abroad. In addition to raising asset prices and lowering interest rates, the anticipated Fed pivot has also eased global financial conditions by weakening the dollar. A weaker dollar is globally stimulative because it improves the balance sheets of foreign corporations borrowing in dollars and foreign banks that lend dollars. More directly, a weaker dollar is also usually directly associated with a rise in global commodity prices. Both of these effects place upward pressure on inflation. Inflation data may look very benign in the near term, but a return to a steady 2% inflation regime seems unlikely.

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Primary Topic: Business Cycle

Topics: Business Cycle, GDP, Inflation, Monetary Policy, Op-Ed/Blog Post

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