Macro Roundup Article

Headline: Parsing the 2024 Inflation Rebound

Article Link: https://theovershoot.co/p/parsing-the-2024-inflation-rebound

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Tweet: Nominal annual wage growth is 4.5-5%, 1.5-2pp faster than pre-pandemic. Absent a surge in productivity and/or the personal saving rate, @M_C_Klein argues that inflation will remain above the Fed's 2% target.

Summary: [Inflation] is probably still 1-2pp faster than the 2% yearly inflation rate target. Average pay for most workers is still rising about 4.5-5% a year, which is still 1.5-2pp faster than the pre-pandemic average. Absent a surge in productivity and/or the personal saving rate, the underlying inflationary trend therefore remains about 1-2pp faster than before the pandemic. For much of 2023, the CPI rose slower than this implied underlying trend, thanks in large part to big one-off drops in consumer goods prices that seem to have stopped. The recent acceleration in observed inflation may therefore reflect a convergence to its "true", faster value. If the extra income growth continues to translate into faster spending growth (as opposed to higher saving), inflation will not stabilize at the pre-pandemic rate unless businesses consistently increase their production of goods and services almost 2 percentage points faster than they did in 2018-2019.

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Primary Topic: Business Cycle

Topics: Business Cycle, GDP, Inflation, Op-Ed/Blog Post, Wages/Income, Weekly, Workforce

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