

**Gregory E. Cater CWS® CRC® AIF®**  
Certified Wealth Strategist®  
Certified Retirement Counselor®  
Accredited Investment Fiduciary®

32731 Egypt Lane, STE 202  
Magnolia, Texas 77354  
936-321-1542  
gcater@1stallied.com  
caterwealthmanagement.com

10/12/2022

Gregory Cater Sr. & Gregory Cater Jr.  
Is Inflation Transitory?

When inflation surged in the first half of 2021, both Federal Reserve Chair Jerome Powell and Treasury Secretary Janet Yellen said the price increases were “transitory”. They were caused primarily by the pandemic. The global economy was mostly shut down, reducing supply while increased stimulus payments, fiscal deficits, and enhanced unemployment benefits increased demand.

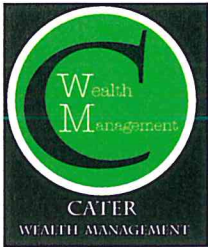
Before we can decide if this inflation is transitory, we must agree on the definition of the word in question. Luckily, Powell was asked this during his July 28, 2021, press conference. An abridged version of his answer is as follows:

“The concept of “transitory” is really this: It is that the increases will happen. We’re not saying they will reverse. That’s not what “transitory” means. It means that the increases in prices will happen, so there will be inflation but that the process of inflation will stop...And so part of that...is if it doesn’t affect longer-term inflation expectations, then it’s very likely not to...affect the process of inflation going forward. So what I mean by “transitory” is just something that doesn’t leave a permanent mark on the inflation process. Again, we don’t mean that producers are going to take those price increases back. That’s not the idea. It’s just that they won’t go on indefinitely. So to the extent people are implementing price increases because raw materials are going up or labor costs or something’s going up, you know, the question for inflation really is, does that mean they’re going to go up the next year by the same amount?”

Powell and Yellen have both received so much flak over their characterization of inflation as transitory that they have publicly walked back those statements. Our goal today is to discuss why they may have had it right the first time around, and why the Fed’s tightening may have already gone too far.

Securities offered through First Allied Securities, Inc. a Registered Broker/Dealer Member FINRA/SIPC.  
Advisory services offered through First Allied Advisory Services, Inc., a Registered Investment Adviser.  
First Allied entities are under separate ownership from any other named entity.

[www.firstallied.com](http://www.firstallied.com)



**Gregory E. Cater CWS® CRC® AIF®**  
Certified Wealth Strategist®  
Certified Retirement Counselor®  
Accredited Investment Fiduciary®

32731 Egypt Lane, STE 202  
Magnolia, Texas 77354  
936-321-1542  
gcater@1stallied.com  
caterwealthmanagement.com

In the 15 months between March'21 and June'22, CPI YOY (Consumer Price Index Year-Over-Year) went from 2% to 9.1%. It has since declined to 8.3%. The current aggressive Fed tightening cycle started in March'22. It's not a coincidence inflation seems to have peaked in June, 2 months after the first Fed hike. In June'22, CPI MOM (CPI Month-Over-Month) peaked at 1.1% and plunged to an average of 0.05% for the next 2 months (July'22 and Aug '22).

The Fed increased the policy rate 75 basis points twice in a row (June'22 and July'22). This is the first time in history it did this. CPI MOM in June'22 was 1.1%. In July'22 it was 0.0% and in Aug'22 it was 0.1%. CPI YOY peaked in June at 9.1% and dropped to 8.3% in Aug. So MOM inflation is down 91% from its peak, and YOY inflation is down 8.8% in the same time. It would appear to us that we are "transitioning" from inflationary pressure to disinflationary pressure.

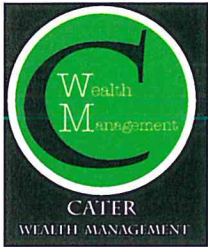
Chairman Powel stated in his latest press conference that the Fed's goal is to return to its 2% target for inflation as soon as possible. Deflation is **not** the goal. It took 15 months for YOY inflation to go from 2% to 9.1%, it's going to take time for it to go back down. CPI YOY is a historical number. It is 11 months of history and 1 month of what's happening now. The most current data we have on our current fight against inflation is the latest monthly reading. Since the Fed started raising rates, MOM inflation fell from 1.1% in June to 0.1% in August. Even though the first two 75 basis point hikes seem to have done the heavy lifting: the Fed added another 75 basis point hike last month and all but promised another one next month.

In our note dated February 15<sup>th</sup>, 2022 we said today's inflation should not be compared to the inflation of 1990 or even 1982 but rather the inflation we experienced in both world wars. During WWI and WWII everyone was working but there was little to buy. All production was directed to the military and consumers bid aggressively for what little consumer goods were available. Inflation soared. During WWI inflation peaked at 23.7% and returned to normal in 12 months. During WWII inflation peaked at 19.7% and dropped to 0% in 26 months. During the COVID-19 pandemic everyone may not have been working but most were still being paid (some were making more not working than they made working). Factories and Services like restaurants and barber shops closed. People had money but there was little to spend it on. Inflation soared.

Securities offered through First Allied Securities, Inc. a Registered Broker/Dealer Member FINRA/SIPC.  
Advisory services offered through First Allied Advisory Services, Inc., a Registered Investment Adviser.  
First Allied entities are under separate ownership from any other named entity.

[www.firstallied.com](http://www.firstallied.com)





**Gregory E. Cater CWS® CRC® AIF®**  
Certified Wealth Strategist®  
Certified Retirement Counselor®  
Accredited Investment Fiduciary®

32731 Egypt Lane, STE 202  
Magnolia, Texas 77354

---

936-321-1542  
gcater@1stallied.com  
caterwealthmanagement.com

We believe the 2 inflationary episodes most like today's, WWI and WWII, were "Transitory". One reversed itself in 12 months and the other in 26. Today, our Federal Reserve has given up on "Transitory" 6 months into the tightening cycle. It's interesting that during the pandemic the forward guidance from the Fed indicated no rate increases in 2022. So far 2022 is experiencing the most aggressive tightening cycle in 42 years.

CNBC reported today (10/10/22) Cleveland Federal Reserve Bank President Loretta Mester sees no indication inflation has peaked and sees the policy rate increasing to 4.6% from 3.25% today. U.S. News reports "Fed's Mester Says Central Bank Has Yet to Make a Dent in Inflation". I don't have the space to list all the indicators of success in the fight against inflation today but please read our last note dated 9/23/22 that can be found here:

[www.caterwealthmanagement.com](http://www.caterwealthmanagement.com)

During the height of the pandemic, the Fed told us not to expect any rate increases in 2022. We started the year at .25% and will most likely end at 4.0%. Now they are telling us not to expect any rate decreases in 2023. I'm surprised anyone listens.

Securities offered through First Allied Securities, Inc. a Registered Broker/Dealer Member FINRA/SIPC.  
Advisory services offered through First Allied Advisory Services, Inc., a Registered Investment Adviser.  
First Allied entities are under separate ownership from any other named entity.

[www.firstallied.com](http://www.firstallied.com)