

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

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Gregory Cater Sr. & Gregory Cater Jr.
Is Inflation Transitory (Part 2)

Yesterday, the Federal Reserve concluded its final meeting of the year and (as expected) raised the Fed-Funds rate 50 basis-points to 4.25% - 4.50%. The previous day, the Consumer Price Index was released. CPI increased 0.1% in November; lower than expected. Over the last 5 months, CPI is up 2.5% (annualized). If we annualize November's 0.1%, we get 1.2% inflation, close to half of the Fed's 2% target. In contrast, the annualized inflation of the previous 5 months (February through June) was 11.8%.

When asked about inflation in yesterday's press conference, Chairman Powell said:

"We have more work to do"

"Where we're missing is on the inflation side. And we're missing by a lot."

"It will take substantially more evidence for the Fed to conclude that inflation is falling enough to stop raising rates"

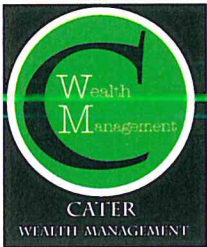
"We've made less progress than expected on inflation"

Over the previous 5 months, inflation has annualized 2.5%. The 5 months before that, inflation annualized 11.8%.

Looks like progress to us!

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In our last note, (Is Inflation Transitory, posted 10/12/2022) we quoted Chairman Powell's definition of "Transitory".

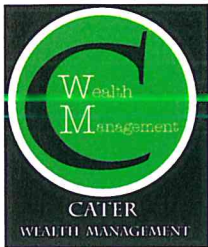
"The concept of transitory is really this; it is that the increases will happen. We're not saying they will reverse. That's not what transitory means. It means that the increases in prices will happen, so there will be inflation but that the process of inflation will stop...And so part of that...is if it doesn't affect longer-term inflation expectations, than 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 next year by the same amount?"

The Fed started the tightening cycle in March; inflation peaked in June, and in the last 5 months has averaged 2.5%. November's 0.1% CPI annualizes at 1.2%. With a trend-line like that, it is hard to see how we can expect prices to go "up next year by the same amount".

The Treasury bond market sees progress too. The yield curve is getting more inverted with 30-year yields much lower than the over-night rate. Inverted yield curves almost always lead to recession.

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Economic Releases Today (Dec 15th, 2022)

	Expected	Actual
Empire Manufacturing (NY)	-1.0	-11.2
Philly Fed Business Outlook	-10.0	-13.8
Retail Sales	-0.2	-0.6
Industrial Production	0.0	-0.2
Manufacturing Production	-0.2	-0.6
Capacity Utilization	79.8	79.7
Business Inventories	0.4	0.3

We are seeing the lagged effects of the Fed tightening in the real economy. Chairman Powell finished up his post meeting press conference yesterday afternoon. Today, the stock market is in freefall. The Dow closed -764 points, and the 10-Year Treasury was trading around 3.45% at the close.

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