

UNDERSTANDING INFLATION NUMBERS

Description



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It took me a long time to understand the 4 different numbers quoted for inflation, so here is a quick guide:-

1. **PCE is Personal Consumption Expenditures** and this index is the Fed's favorite. As of August it showed inflation at an annual rate of 6.2%. September reading will be released on 28th October.

2. **PCE Core** is the same index but excludes Food and Energy. As of August this rate, year over year, was reading 4.9%.

PCE Core is the number that the FED quotes the most, and is always saying their target for PCE Core is 2%. Good luck on that in Jerome Powell's lifetime, and maybe yours if you are 40 years or older.

3. **CPI is the Consumer Price Index** and is, in my view, the best statement of how much your cost of living is accelerating.

As of September this rate of inflation was 8.2% year over year. This number was released on October 13.

4. **CPI Core** again excludes food and energy and the September readout for CPI Core was 6.6%.

As I have written previously, the FED was way too slow cutting off the inflation horse before it was out of the barn, and history shows that "transitory" becomes "permanent" until you feed the economy with rate hikes at least equal to or above real inflation (8.2%).

The latest FED increase took the target rate to 3.00 - 3.25 (it is always a range at which institutions may lend to each other, an interbank rate if you like). So the FED is at 3.25% while the inflation horse is racing away at 8.2%. You won't catch this horse, even by next year's Kentucky Derby.

Pulling out food and energy from the indices does not help you (unless you stop eating and driving your vehicle) so disregard the so-called "Core" handicap. Expect the cost of living to increase between 4% and 6% over the next several years. Your careful hedging of investments, including real estate, to keep your lifestyle intact is essential to offset the coming recession and beyond.

David

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1. Uncategorized

Date Created

October 18, 2022

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