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## Inflation! Dead or Alive?

We've seen a hot debate going on for some time now, in the investment world. The subject is "Inflation!" and the experts and media have long since picked their sides. For most of the media, of course, the choice of sides was clear: "Don't Go Near the Water! Inflation's Back!" is always going to rivet more eyeballs than the good news side of the debate: "Inflation! What Inflation?" The experts, though, have split down the middle, with a sizeable crowd betting its reputation on the "What Inflation?" side of the debate; but a bigger crowd choosing the "Watch Out! It's Coming Back!" option.

Two of Outlook's favorite economists, Brian Wesbury and Scott Grannis, have split on this question . . . which has been interesting to see, for the last year or more, because for a great many years these two men mostly shared the same opinions about the important events in the economic world. Who is right?

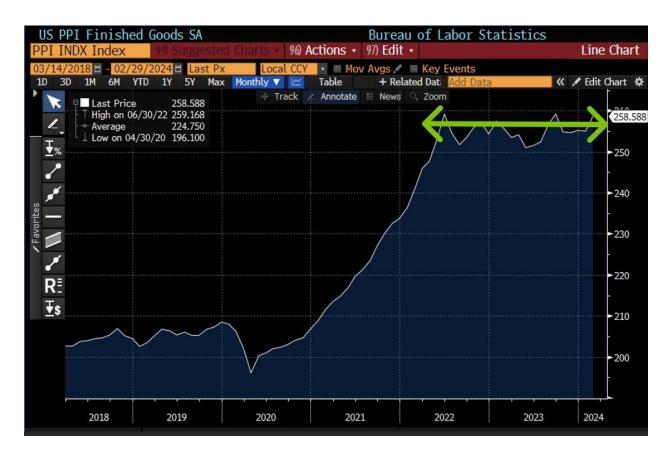
At Outlook we think Mr. Grannis has it right. For at least the last year, he's been emphatic about inflation dying without the Fed noticing, or admitting it. Mr. Wesbury's on the other side. He's been emphatic about inflation lurking in the weeds, waiting to spring back on the economy like a rabid wolf. The difference between how these two experts interpret the world will ring a bell for Outlook readers. Mr. Wesbury is sure inflation will be back because . . . his model says so. His model basically says, "There is no way the squadrillions of dollars the Fed printed during and after the Pandemic can do anything except fuel longer and higher inflation!"

Mr. Grannis, on the other hand, sees the world not through the lens of a model, but through the lens of practical observation and a dose of common sense. He's been emphatic about the strange formula used to calculate inflation in the U.S.: a formula which uses a "made up number," (the imaginary rent homeowners would supposedly charge renters, if they happened to rent all the homes they own) to come up with such high inflation readings. Without that made up number, most of the key inflation statistics would have been far lower, and are now much lower. He doesn't pooh-pooh the squadrillions of printed dollars . . . but he does observe that people haven't been spending their extra dollars as they've done in the past. They haven't been doing that because they're alarmed about everything that's happened since the Pandemic, and they feel like playing it safer. And squadrillions of printed dollars can only create inflation if they are circulated . . . spent, that is.

Here's a picture from Mr. Grannis. It's the Producer Price Index, which got scare headlines a few days ago (like other inflation statistics) when it popped up to an annual rate of 6% . . . which certainly does sound scary. The green arrow is the inflation trend for the PPI, since mid-2022 . . . almost two whole years. Flat, isn't it? Bumpy from month to month, as it always is . . . but flat, if we just back up for some perspective.

We think he is right. But there's another level. We also think, and this matters more, that even if he's wrong and Mr. Wesbury is right...so what? Main Street USA, both Business and Household, have simply shrugged off the "frightening" inflation since the Pandemic. We've been a broken record on the subject of Main Street's historically awesome financial strength—because financial strength is, well, the sun, moon and stars when it comes to confidence in the future. When we look back in a few years, it will not matter whether it turns out that inflation was dead, or that "It Came Back!" The only thing that will matter, as always, will turn out to be Main Street's strength, ingenuity and determination. We're holding and buying more shares whenever we get the chance.

**Producer Price Index** 



© Dave Raub Outlook Capital Management, LLC 125 S. Wilke Road, Suite 200E Arlington Heights, IL 60005 847-797-0600

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