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Inflation expectations are calm, but some expect that to change

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Inflation, inflation, inflation. The Federal Reserve keeps poring over data, trying to figure out whether it should hold interest rates higher for longer, to make sure inflation comes down to its 2% target — or continue to cut, in December and again into next year, confident of having defeated the inflation beast.

The Atlanta Fed's survey of business inflation expectations figure held steady at 2.2% in November, same as the prior month. For comparison, the consumer price index is up 2.6% over the last year.

Fed Chair Jerome Powell weighed in recently during a speech in Dallas: "With labor market conditions in rough balance and inflation expectations well anchored, I expect inflation to continue to come down toward our 2% objective, albeit on a sometimes bumpy path."

Along with businesses, everyday Americans' inflation expectations certainly do seem "well anchored." Consumers predict prices will rise 2.9% over the next year, according to the New York Fed.

Looking at current inflation rates, the Fed is right to be planning further interest-rate cuts, said Brian Rehling, head of global fixed-income strategy at the Wells Fargo Investment Institute.

But looking forward, he said, investors are less confident inflation will keep falling and the Fed will keep cutting.

"The market sees some of the policies that may be implemented with the new administration, and concern starts that some of those policies may eventually lead to inflation down the road," Rehling said.

Specifically, President-elect Donald Trump has pledged to impose steep tariffs on imports that could elevate prices and initiate mass deportations that could lead to labor shortages. His tax cut and deregulation plans could juice the overall economy.

Bernard Baumohl, chief global economist at the Economic Outlook Group, said the Fed will be watching to see whether businesses think they have to pay higher wages to find workers or raise prices to offset tariffs.

“If we begin to see inflation expectations pick up, that means the Federal Reserve is even less likely to lower rates in December, and obviously then into 2025. And that would mean the pain becomes even greater on especially lower- and middle-income groups,” he said.

And most Americans really want to see inflation tamed, said Chris Jackson, head of public polling at Ipsos.

“When we ask them what they want the Trump administration’s priority to be in their first 100 days, by a large margin they’re saying dealing with inflation,” he said. What consumers want more than anything, Jackson said, is for prices to fall back to pre-pandemic levels. Which isn’t likely to happen anytime soon.

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