

A juiced-up economy is good news, right? Not if inflation reignites. That's the worry now.

By Jeffrey Bartash
January 13, 2025

Fresh worries about rising prices are troubling Wall Street.

The economy is humming along and yet the stock market is tanking. What's going on? Chalk it up to worries that strong U.S. growth will prevent inflation from returning to low prepandemic levels.

Wall Street got a taste of that scenario on Friday when the government reported a stronger-than-expected 256,000 new jobs in December and a lower unemployment rate. Stocks SPX DJIA COMP subsequently sank.

"The economy galloping into the new year with considerable momentum," said **Bernard Baumohl**, chief global economist at the Economic Outlook Group.

The news is likely to show more of the same this week: Robust retail sales during the holiday shopping season - another sign of economic muscle - and elevated consumer and wholesale inflation readings in December.

The incoming Trump White House could intensify those trends.

Read: 'Inflation levels seem to be increasing': Businesses are worried about tariffs and rising prices.

President-elect Trump vows to boost the economy via more tax cuts and less regulation. Yet even stronger U.S. growth, along with steeper tariffs also promised by Trump, could make it harder for the Federal Reserve to reduce inflation to its 2% annual target.

Increasing demand for goods and services - and the labor needed to produce them - could give rise to another bump in inflation.

"The slow progress over the past year continues to underscore that the last leg of inflation's journey back to target remains quite arduous," said senior economist Sam Bullard of Wells Fargo. "The path ahead looks even more challenging now with economic policies under the incoming administration likely to be inflationary."

The stock market's negative reaction on Friday largely stemmed from the realization the Fed might not cut interest rates as sharply as Wall Street had expected just a few months ago. Lower rates tend to goose the economy and make stocks more attractive relative to bonds.

The flip side, of course, is that a strong economy tends to increase business profits and justify higher stock prices. So what's the worry?

Some economists fret that the Fed, instead of cutting rates in 2025, might even have to raise them to regain control over inflation. That would be bad for stocks and possibly even threaten the four-year-old economic expansion.

"Is the Fed's strategy to contain inflation starting to unravel?" **Baumohl** asked.

Most economists, including **Baumohl**, are not willing to go that far. Yet the situation looks dramatically different now compared to last fall, when the Fed cut rates aggressively and signaled more cuts to come.

The biggest worry has been a rebound in inflation.

The consumer-price index has posted elevated inflation readings for four months in a row. As a result, the yearly rate of inflation has moved back up to 2.7% in November from 2.4% at the end of the summer - and it could reach 2.9% in December.

The CPI is forecast to show a 0.2% monthly increase in December and a sharper 0.3% gain in the more closely followed core rate that strips out food and energy prices. The core rate is viewed as a better predictor of future inflation.

The yearly increase in the core rate is likely to remain at 3.3%. The CPI report comes out Thursday.

Wholesale prices - where the seeds of inflation are planted - are also expected to rise 0.3% in December. They are increasing at a 3%-plus annual pace, too.

The economy, for its part, appears to have ended 2024 on a strong note. Retail sales in the final stages of the holiday season in December are expected to show a 0.5% gain. The report comes out Thursday.

Economists say low unemployment, rising incomes and the wealth effect from soaring stocks and home values have given consumers the ability to spend more. Consumer spending is the main engine of the economy.

The resilience of consumer spending, in turn, has kept businesses from firing workers. And the prospect of a business-friendly White House might even be leading to more hiring, as the last two monthly job reports suggest.

"The U.S. is starting the year on solid footing," economists at Morgan Stanley wrote in a recent note to clients.

###