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Inflation, inflation, inflation – is it for real?

The short answer is nobody knows for sure. Those writing about such issues seem to be playing both ends of the discussion against the middle – which is the consumer. Inflation has been the dominate topic since 2020 ended due to rising yield of 10-Year Treasury note sales – but more on that later.

One argument says recent Consumer Price Index (CPI) inflation reports for April and May shows nothing more than “transitory” price increases resulting from supply and delivery shortages…something that will work itself out over time. Inflation is not permanent and deemed “transitory” for now.

The other side argues inflation could be “very real” now, and if not addressed it could be worse in the near future…and harder to extinguish. Inflationary is as much factual as it is emotional. If the public thinks it exists, then it will feed future inflation expectations, If that happens, the economy’s entire pricing system will change and not for the better – inflation may become ingrained. They argue it’s better to act now and risk a recession than risk inflation.

One key indicator of inflation is the sale of bonds, especially Treasury ones. If investors think inflation might be real for the future, they demand higher yields (think interest rates) when purchasing Treasury notes. The sale or auction of 10-Year Treasury notes is the bellwether barometer to watch to see where rates might be going.

Treasury note sales ended 2020 below 1%, at 0.90 yield (interest rate). Since then, their “yield” has slowly but steadily climbed to 1.79% this past May. That rise didn’t go unnoticed and was compounded by CPI reports for April and May 2021. There was concern inflation might be real.

But surprise-surprise: Since mid-May, 10-year Treasury note started fall in yield to 1.45% on June 18. Experts believe this means investors are not “sold” about inflation being real so much as inflation is “transitory” and will work itself once production and supply/transportation problems are resolved. That’s expected to happen by fall of this year.

I agree.

Thanks, Van