



# Dave Windsor's 'Alaska Real Estate'

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## FED Racehorse Losing The Competition

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Everyone knows the FED wants 2% inflation but how do you figure out what this means with all the numbers floating around? 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 April it showed inflation at an annual rate of 4.4%. May reading will be released today 30<sup>th</sup> June as you are reading this.
2. PCE Core is the same index but excludes Food and Energy. As of April this rate, year over year, was reading 4.7%.  
  
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 April this rate of

inflation was 4.9% year over year. This number was released on May 15.

4. CPI Core again excludes food and energy and the April readout for CPI Core was 5.5%.

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 (4.9%).

The latest FED increase took the target rate to 5.00 – 5.25 (it is always a range at which institutions may lend to each other, an interbank rate if you like). So the FED is at 5.25% while the inflation horse is racing at 4.9%. Finally, they have a chance of catching the horse by next year's Kentucky Derby. However, catching the horse from the back of the field will cause casualties – that is, an economic recession. Many analysts, including myself, believe that the recession will force the FED to lower rates again and this means the Inflation horse wins the day. For this reason the 2.0% FED goal for PCE Core is a pipe dream.

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

your 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.

Anyhow, thought you would enjoy some light reading over the long weekend.....

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