



## The Daily Dish

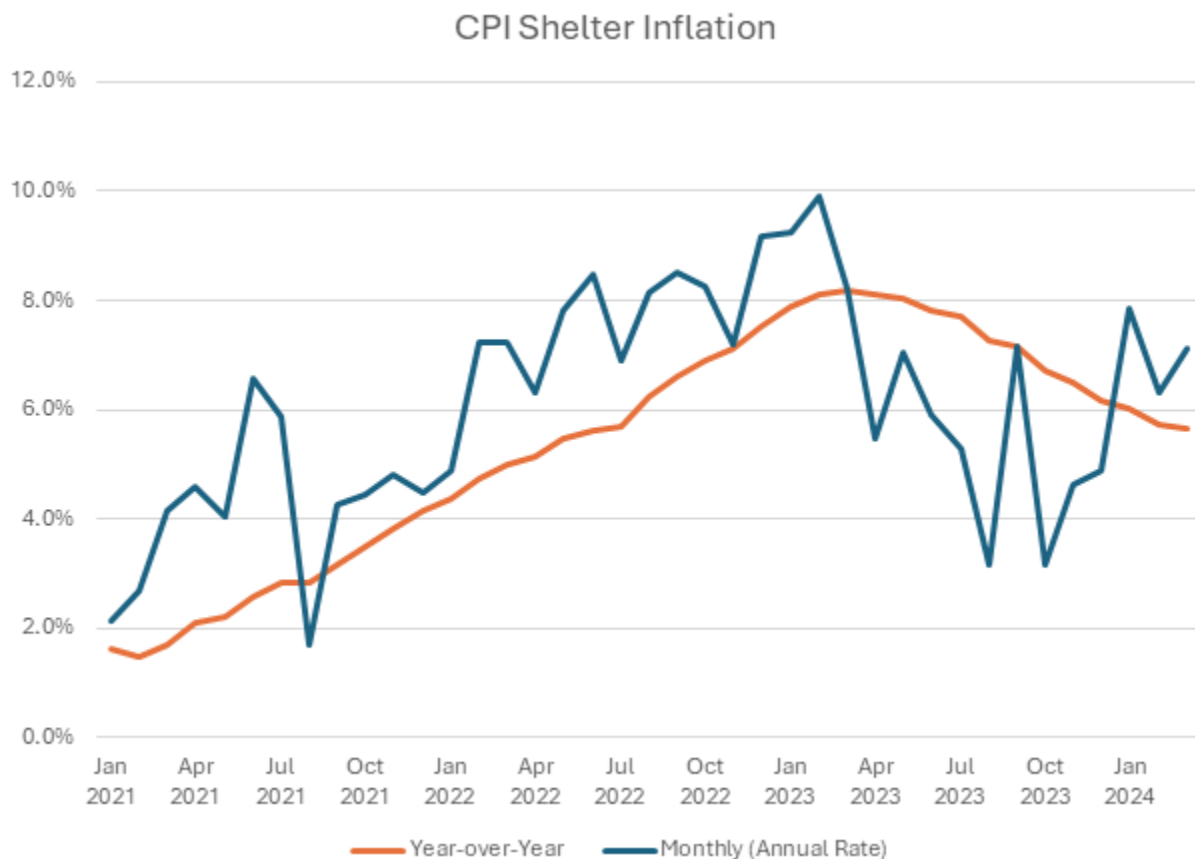
# The Inflation Fight

DOUGLAS HOLTZ-EAKIN | MAY 14, 2024

*The Wall Street Journal* recently featured a piece entitled “[Stubbornly High Rents Prevent Fed From Finishing Inflation Fight](#),” which notes that the Fed “[expects a slowdown in housing costs](#) to eventually drag inflation close to its 2% target.” The pace of shelter inflation matters so much because shelter is one-third of the Consumer Price Index (CPI) and one-sixth of the Personal Consumption Expenditures price index.

The dilemma is displayed below. The orange line depicts year-over-year shelter inflation, which stood at 1.6 percent in January 2021 and ramped up steadily to peak at 8.2 percent in March 2023. Notice that this is a bit less than a year after the overall CPI inflation peaked at 9.1 percent in June 2022. This is a reminder that CPI shelter inflation reacts with a lag.

Since then, shelter inflation has fallen to 5.7 percent. Unfortunately, with that rate of shelter inflation, the remainder of the CPI must show zero inflation to hit the overall 2 percent target. The more troubling aspect of the graph, however, is the fact that the most recent three months of data have been at an annualized rate above the year-over-year pace. In other words, if the past three months repeat themselves, the year-over-year rate will rise.



This puts a lot of importance on the release of the Producer Price Index this morning and, especially, the CPI on Wednesday. That importance is heightened by

[news](#) from the New York Fed that inflation expectations have reversed course and rose from 3.0 to 3.3 percent in the most recent survey. Inflation expectations can be self-fulfilling prophecies, so it is much easier to fight inflation when they are on the decline.

Buckle up for a big week on the inflation data front.