



Producer prices rose 9.6% - and those costs get passed to consumers, says economist

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WASHINGTON (TND) — As inflation becomes the number one concern for Americans this holiday season, the Federal Reserve is in the midst of a two-day policy meeting to discuss some possible options to bring relief to Americans.

“The two things I want to see are the schedule of the Fed tapering its bond purchases, slowing down that quantitative easing, and then seeing if there's any indication of actual interest rates rising next year,” Scott Lincicome, a senior fellow at the Cato Institute, said to The National Desk’s Jan Jeffcoat.

How could speeding up the timeline on tapering bond purchases help with inflation?

The Fed, through its quantitative easing program, buys bonds, so treasuries, mortgage-backed securities, and what that does is it creates a market for those and keeps a lid on long-term interest rates,” said Lincicome. “As the Fed starts to taper those purchases, you expect longer-term interest rates to rise as the borrowers need to offer higher rates in order to get people to buy those bonds.

Lincicome says it will also “signal to the market that higher rates are on the way,” which would raise rates as well.

The Labor Department released the Producer Price Index, showing a 9.6% increase in November from a year earlier. Consumer inflation rose 6.8% in the same time period.

Last year, things were really muted because COVID was really raging,” said Lincicome. “The Producer Price Index just came in much higher than economists were expecting. And what that really

means is that those are the prices that companies are charging each other, and what happens eventually is those get passed on to the consumer.

With the omicron variant impacting the stock market along with inflation, Lincicome says it's a "tricky situation."

"On the one hand, you have all this demand and you have all these prices going up. But on the other hand, the fear is that omicron acts as a kind of dampening economic activity," said Lincicome. "I think the bigger issue is what's going to happen abroad with a lot of places that don't have nearly the vaccination levels of the United States."