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WEEKLY ECONOMIC UPDATE FEB. 17, 2025

Stocks advanced last week despite some intra-week volatility as investors showed concern about the economy's strength.

The Standard & Poor's 500 Index gained 1.47 percent, while the Nasdaq Composite Index picked up 2.58 percent. The Dow Jones Industrial Average added 0.55 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, tacked on 2.53 percent.[1,2]

The Fed Is in "No Hurry"

Stocks opened the week higher, quickly discounting news that the White House would impose 25 percent tariffs on all steel and aluminum imports. Tuesday was a volatility session, punctuated by comments from Fed Chair Powell, who told lawmakers the central bank doesn't "need to be in a hurry" to lower interior rates further.[3,4]

Stocks opened lower Wednesday after a warmer-than-expected update on consumer prices. But stocks showed some resilience and rallied throughout the day. The Nasdaq managed to claw back its losses before Wednesday's close.[5]

On Thursday, the White House announced a plan for reciprocal tariffs (levies on goods imported into the U.S. from countries that impose tariffs on U.S.-exported goods). But markets rallied on news that the administration would pause tariffs until they determine how much to levy on each country. Stocks took a breather on Friday, shrugging off a weaker-than-expected retail sales report.

The S&P ended shy of a record close, and the Nasdaq finished the week above the 20,000 mark.[6]

Inflation in Focus

The Consumer Price Index report showed prices rose 0.5 percent in January–slightly hotter than expected. Shelter costs remained elevated, increasing 0.4 percent for the month.

Core CPI, which excludes volatile food and energy prices, was also above forecast. Food prices rose 0.4 percent, pushed by a 15.2 percent increase in egg prices related to ongoing issues forcing farmers to cull chicken flocks. Energy prices picked up 1.1 percent as gasoline prices rose.[7,8]

This Week: Key Economic Data

Tuesday: Homebuilder Confidence Index. San Francisco Fed President Mary Daly speaks.

Wednesday: Housing Starts & Building Permits. Minutes from January Fed meeting.

Thursday: Weekly Jobless Claims. Leading Economic Indicators. Fed Officials Austan Goolsbee and Alberto Musalem speak.

Friday: Existing Home Sales. Consumer Sentiment.

"In a Digital World, We Remain Analog at Heart"

– Grok

Of Note

Price inflation is rising, but it has nothing to do with tariffs. It has everything to do with the Fed's policy and the Treasury's uncontrolled spending.

The Core PCE Price Index, which excludes food and energy, rose by 0.2 percent this month and remains stubbornly high at 2.8 percent annualized. The headline PCE Price Index increased by 0.3 percent, the first 0.3 percent monthly increase in eight months. This has pushed the annualized increase to 2.55 percent, the highest in seven months.

Obviously, this price inflation trend has nothing to do with tariffs but with the fact that government spending soared 10 percent in 2024, and money supply growth is at a two-year-high.

The Federal Reserve created price inflation in 2020 when money supply growth rose at its fastest pace in decades to finance the enormous increase in government spending and perpetuated inflation, keeping an ultra-loose policy for two more years. Furthermore, in 2024 the Fed panicked and delayed its balance sheet reduction in June only to cut rates in September. All these measures, designed to hide the increasing unsustainability of government spending, have perpetuated inflation, reaching an accumulative inflation measured by CPI of almost 25 percent in four years.

The M2 money supply saw an unprecedented increase in 2020, with a year-over-year growth rate hitting over 23 percent by

August 2020. This was the highest growth rate since records began in 1981.

From February 2020 to November 2024, the United States M2 money supply has soared from $15.4 trillion to $21.45 trillion, which is a cumulative growth of about 39.3 percent.

In the same period, cumulative price inflation measured by CPI rose almost 25 percent, with some essential goods like gas or food rising more than 40 percent. The entire inflationary spiral is caused by the historic accumulation of newly created money looking to finance the rising excess in government spending, which stood more than $2 trillion above the 2019 level by 2024.

Tariffs may have plenty of consequences, but they do not cause price inflation. Price inflation is the erosion of the currency's purchasing power, and it can only occur when money supply growth, almost always driven by much higher spending, exceeds private sector demand. Furthermore, there has never been an instance in history in which the money supply did not soar alongside government spending.

Tariffs may lead to increases in some individual prices if the goods affected are entirely produced abroad and demand is inelastic, but they do not increase aggregate prices, let alone create an annualized and constant increase, as measured by CPI. Only aggressive fiscal and monetary policies cause inflation. Furthermore, if the quantity of money in the system remains unchanged, tariffs would make prices drop because the units of currency available to purchase the rest of the goods and services would be significantly smaller.

Tariffs, like oil prices, may have relevant implications on numerous trade factors, but they do not cause price inflation. If the money supply is unchanged and oil prices rise, the rest of the goods and services decline. Same with tariffs. Oil prices and tariffs are inherently deflationary unless newly created currency and money supply growth rise faster. Furthermore, oil and tariffs may have an impact in the short term, but they do not make aggregate prices go up, consolidate the increase, and continue rising, which is what annualized CPI and PCE measure.

Why is this important? Keynesians want to continue imposing inflationism and blaming external factors for the erosion of the purchasing power of the currency.

Last week, the Federal Open Market Committee (FOMC) talked about the possible implications of tariffs but refrained from making definitive statements on their immediate impact on interest rates.

Jerome Powell highlighted a "very, very wide range of possibilities" regarding the consequences of tariffs, indicating that the Fed is waiting to see what policies are enacted before assessing their impact on the economy. Powell emphasized that they need to see more data to evaluate how tariffs will affect consumers and the broader economic landscape, according to the FOMC minutes.

Thus, the narrative has already been created. If inflation continues to rise, the Federal Reserve will use the tariff excuse just as it used the "supply chain disruption" and "re-opening" fallacy in the past. However, the reality remains that an abrupt money surge always creates inflation, and the Fed is not fulfilling its mandate.

The excuse has been created. Governments will continue to spend and increase deficits and debt, central banks will continue to print, and they will blame tariffs just as they blamed supply chain disruptions.

The most important objective of Keynesians is to make you think that the consequences of inflation are the causes. Only rising money supply driven by soaring government spending, which makes money velocity increase, creates inflation.[9]

Footnotes and Sources

1. The Wall Street Journal, February 14, 2025
2. Investing.com, February 14, 2025
3. MarketWatch.com, February 10, 2025
4. CNBC.com, February 11, 2025
5. The Wall Street Journal, February 12, 2025
6. CNBC.com, February 14, 2025
7. The Wall Street Journal, February 12, 2025
8. MarketWatch.com, February 10, 2025
9. mises.org/mises-wire/will-federal-reserve-blame-tariffs-price-inflation-fed-creates

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