

Robert Shapiro: The Recovery Is Abnormally Slow and Unusually Fragile

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The Consumer Price Index for Urban Consumers—commonly referred to as the CPI-U—increased 0.1 percent in November, on a seasonally adjusted basis. The number was released earlier today by the Bureau of Labor statistics.

What—if anything—does that data point tell us about the broader economy?

Earlier today, I spoke with Dr. Robert Shapiro to help us put that number into context, and to provide a broader economic perspective.

Dr. Shapiro was Under Secretary of Commerce for Economic Affairs during the Clinton administration, and the principal architect of President Clinton's 1992 economic program.

"What we know from this number is what we knew without this number: Namely, the recovery is abnormally slow, unusually fragile, companies can't raise prices in that environment. Demand is not strong enough to support higher prices," Shapiro said.

While that may sound like a rather pessimistic overall economic picture there are, according to Shapiro, a few bright spots and signs of recent improvement.

"We are at least out the period when we were in actual deflation," he said. (The last time that the BLS released a negative CPI-U number was June of 2010.)

And, Shapiro added, based on other indicators, there are "some signs that the economy is a little stronger in the fourth quarter than expected."

As a general rule however, he went on to caution against overreliance on data from any single month.

"One month's data—unless it is something extraordinary— isn't something you hang an economic forecast on. And this month's number appears to be pretty unremarkable with regard to the CPI," he said.

That said, Shapiro was very clear about his views on the overall inflation picture.

"We are in a low inflation environment—we know that. And the markets expect this low inflation environment to persist," he said. I noted that the Treasury market seem to reflect that perception. He agreed. "That's what we're seeing—based on the interest rates."

"There will be little movements up and down," he added. But he expects the overall low inflation trend to continue.

"Right now, core inflation is very low—but it isn't negative. If you look at core inflation for the last eleven months, it's up .8 percent. What this tells us, as expected, is that the economy is slow. Demand is very weak."

"The only significant increases that we see in the CPI all have to do with health care. And, even so, the increases in health care services [are lower than expected.] Health Care services are up about 3.5 percent over the last twelve months—which is about half their normal rate of increase."

When I asked him about the causes of low demand from consumers, Shapiro cited the negative wealth effect—specifically, the economic anxiety caused by the losses homeowners have suffered in the housing market since the subprime crisis.

"I think it's the single largest factor holding down demand today," he said.

But then, you probably didn't need me to tell you that.

Dr. Shapiro is now Chairman of Sonecon, an economics advisory firm.