



US inflation dashboard

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July 2022

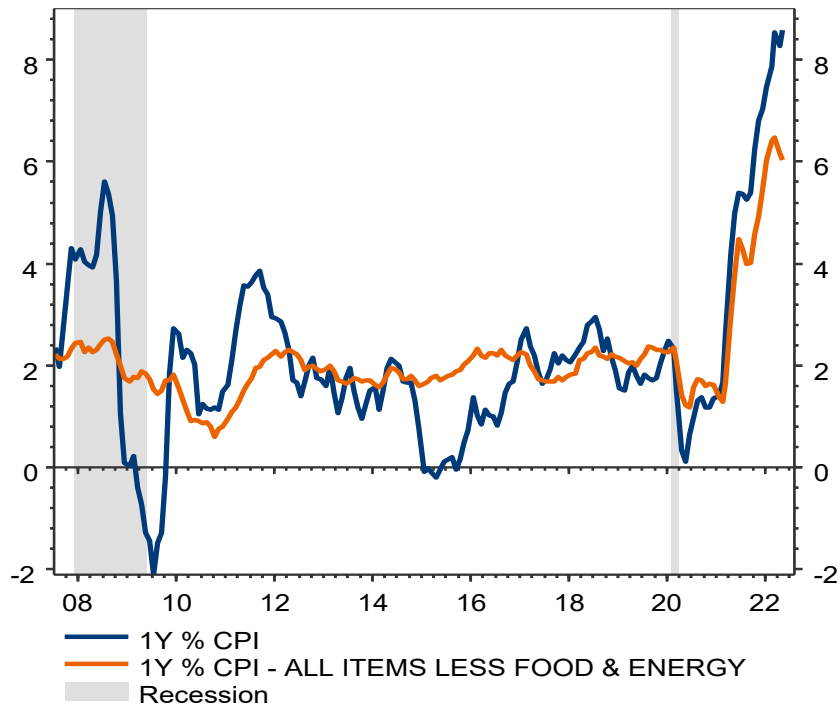
Inflation is the sole Fed's compass

“Participants concurred that the economic outlook warranted moving to a restrictive stance of policy, and they recognized the possibility that an even more restrictive stance could be appropriate if elevated inflation pressures were to persist.” (minutes of June's FOMC meeting)

- The minutes of the June FOMC meeting confirmed the Fed's central message: **monetary policy will be uniquely focused on fighting inflation**, regardless of the consequences on growth. The decision to raise rates by 75 bp in June was driven by the worsening near-term inflation scenario, and "participants" (i.e., consensus) believed that at the July meeting it will likely be appropriate to implement a 50 or 75 bp intervention. To date, five participants to the FOMC have already explicitly backed a 75 bp hike in July.
- The **outcome of the July meeting** will be influenced by June's labor market and inflation data. June' payrolls were solid, while labor supply remains constrained by the effects of the pandemic. The CPI in June is forecast up by 1.1% m/m for the headline index and 0.6% m/m for the core index, with a further increase in annual inflation, to 8.8% y/y. The expectation that the recent contraction of energy prices will lead to a downward turn in inflation toward 8.5% y/y in July, in our view, is unlikely to change the Fed's course. Any scaling back of the pace of rate increases will depend on "convincing evidence" of slowing monthly inflation dynamics, i.e., **multiple months of declining changes and not a single data point. The current fast hiking track should last at best through November.**
- **Inflation expectations**, at risk of becoming unanchored, are another crucial element for the rates' path. “In light of elevated inflation pressures and signs of deterioration in some measures of inflation expectations, all participants reaffirmed their strong commitment to returning inflation to the Committee's 2 percent objective” (June FOMC minutes).
- The current **consumption slowdown** and **growing fears of a 2023 recession**, which has a risk moving close to 50%, are not going to slow the Fed in the next two quarters, as inflation is unlikely to slow down significantly in the coming months, while employment remains solid.

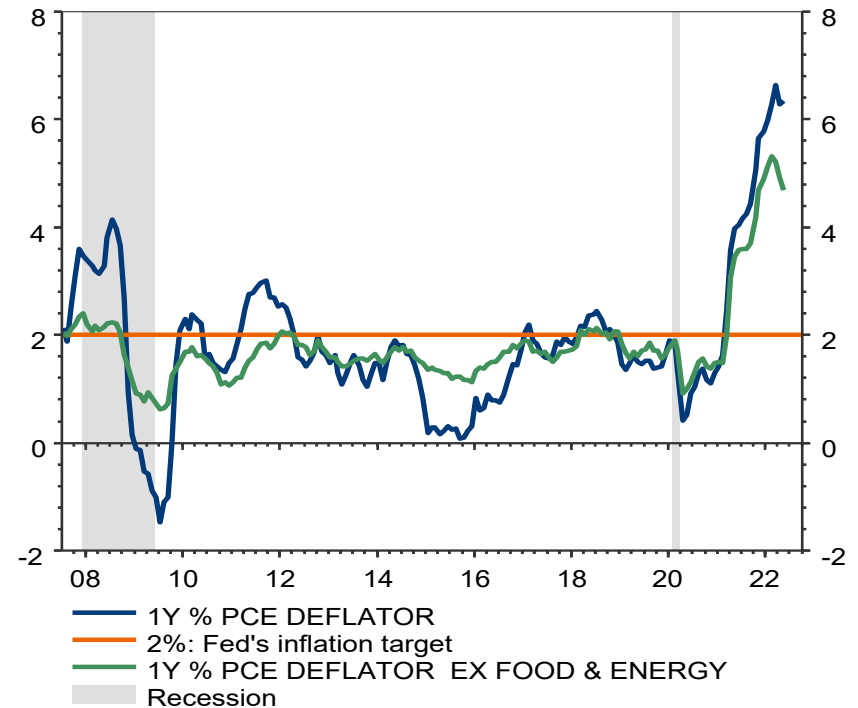
Inflation, stubbornly elevated, will react with the usual long and variable lags to monetary tightening

Inflation stuck around levels not seen since the early '80s, both for the CPI...



Source: BLS

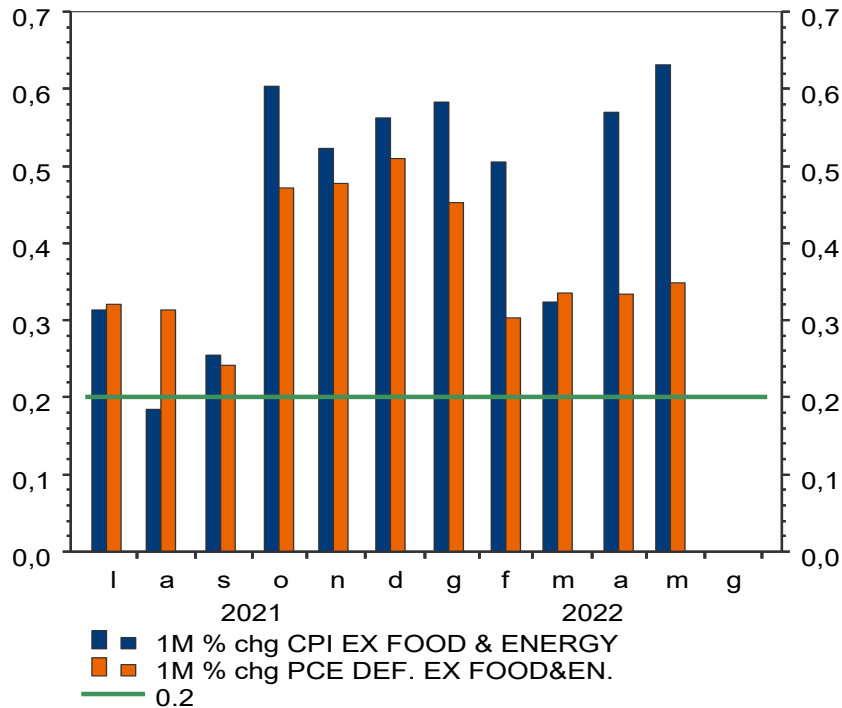
...and the consumption deflator



Source: BEA

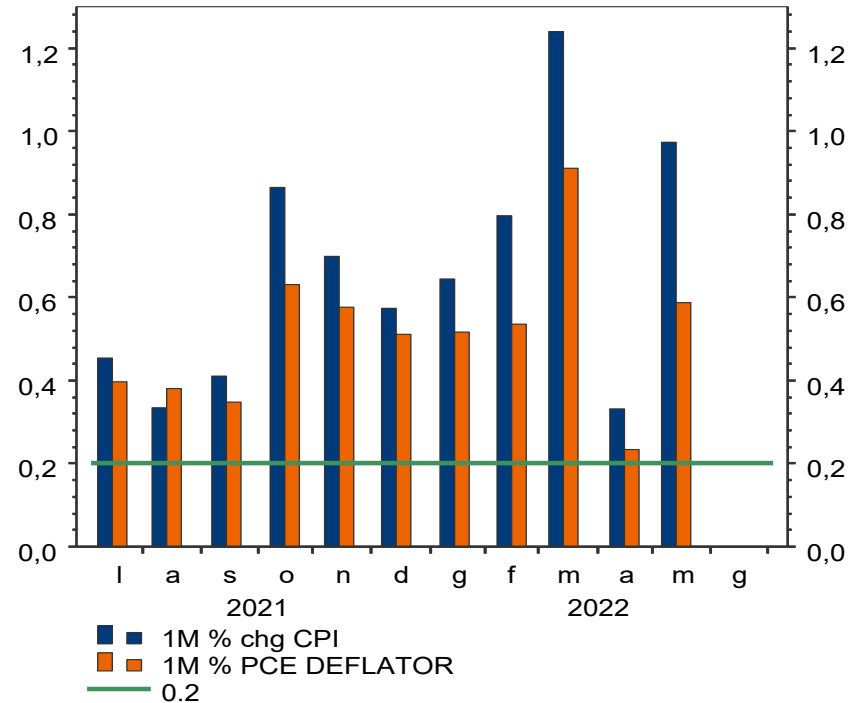
Monthly changes far from the «compelling» evidence needed to slow the pace of rate hikes

CPI growing faster than the deflator



Source: BLS

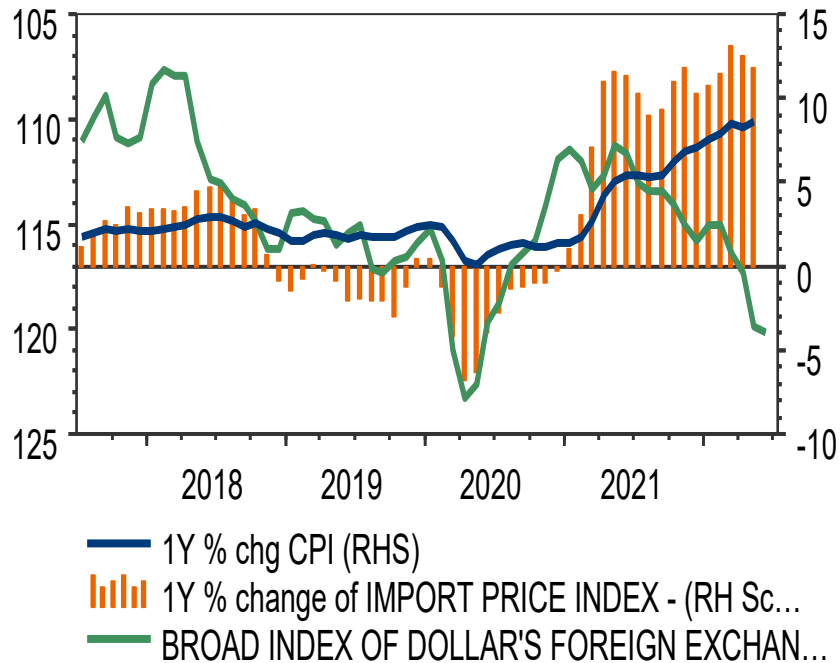
PCE deflator: monthly changes more subdued due to financial fees, housing and legislated price caps on health prices



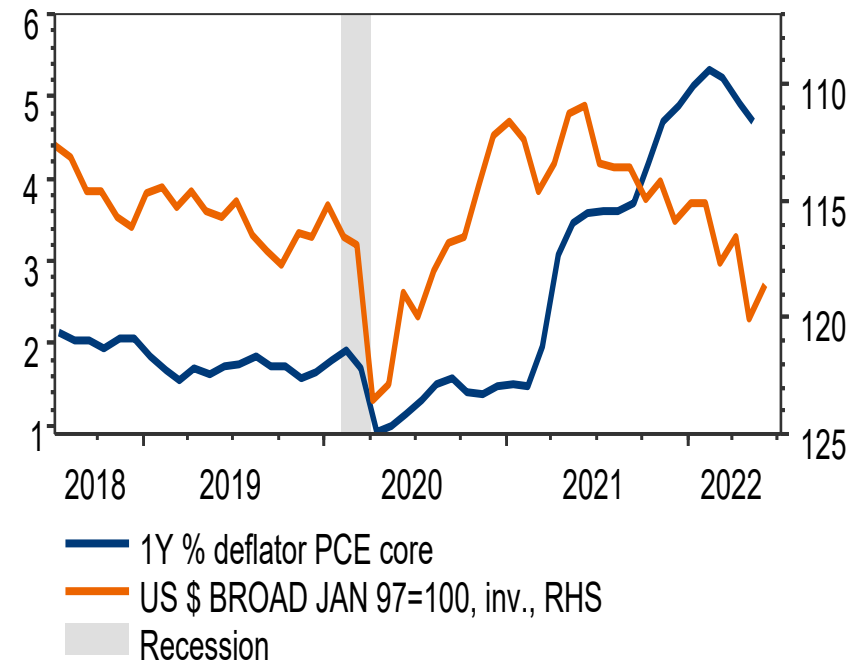
Source: BEA

CPI & dollar: no response, so far

Import prices, CPI, dollar



PCE core vs USD

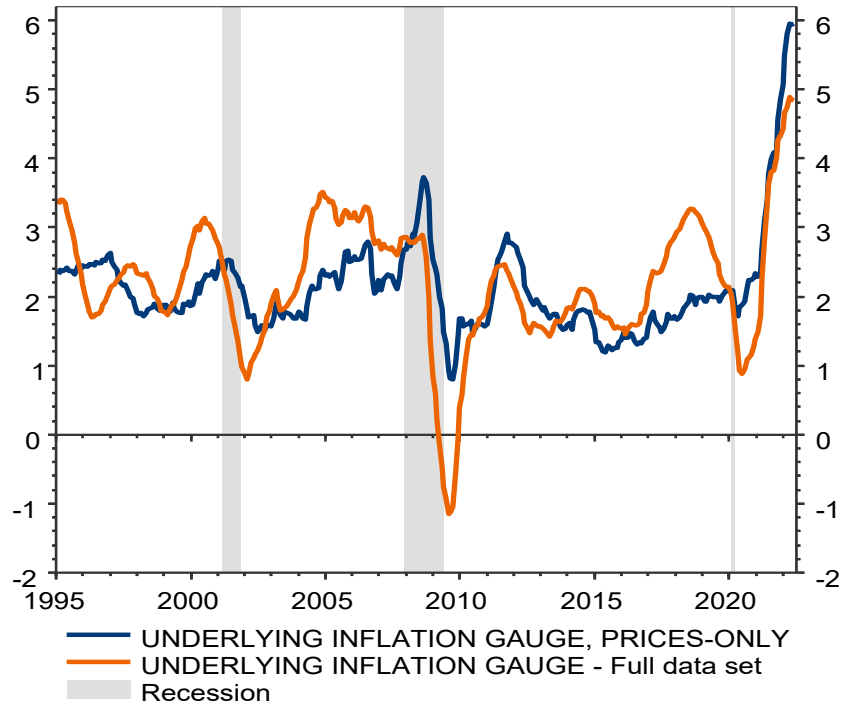


Source: BLS, Refinitiv Datastream

Source: BEA, Refinitiv Datastream

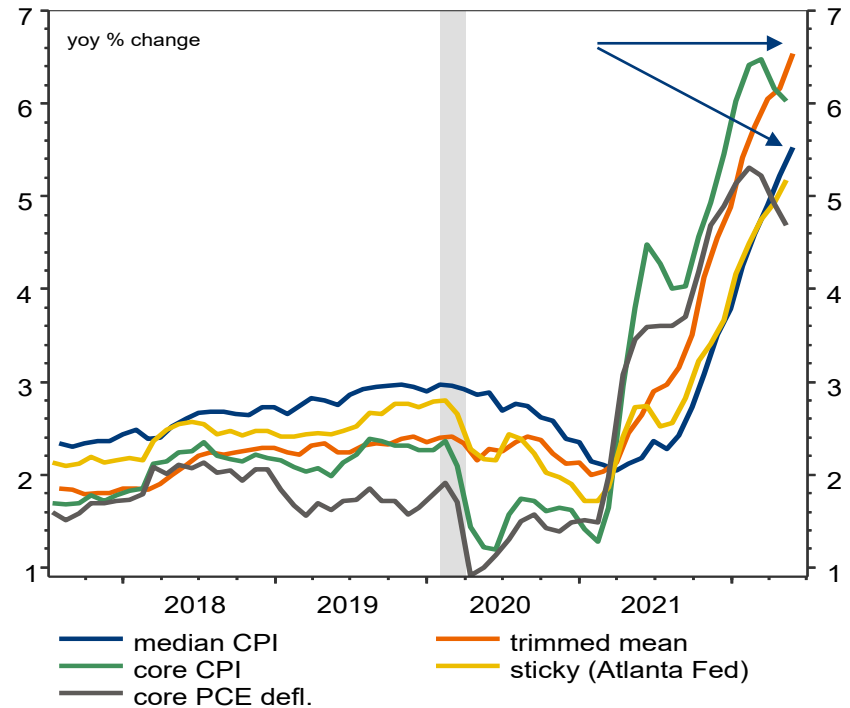
Underlying inflation measures: no signs of wavering/1

NY Fed Underlying Inflation Gauge



Source: NY Fed

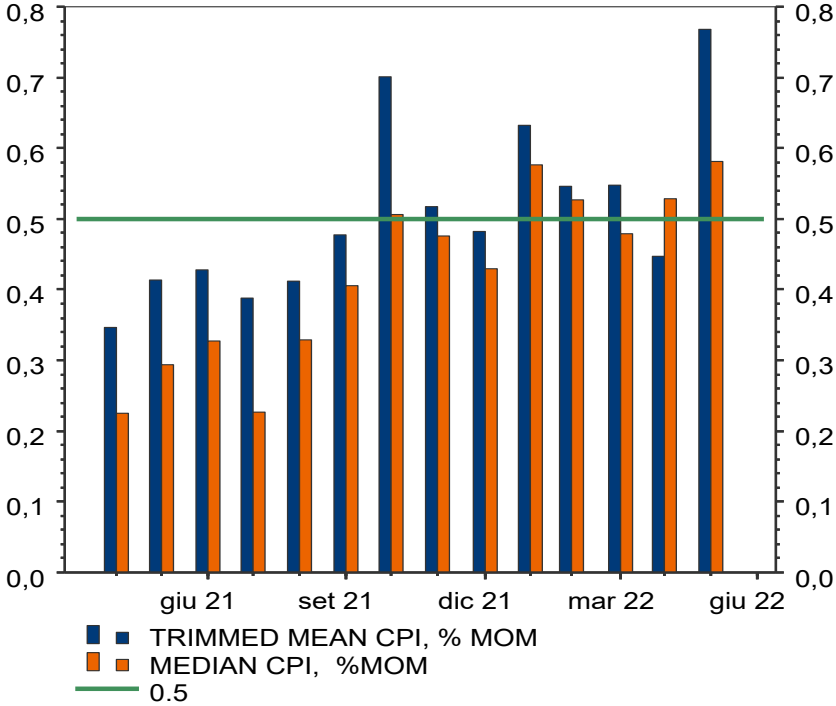
Trimmed mean, median and sticky price inflation still running hot



Source: Refinitiv Datastream

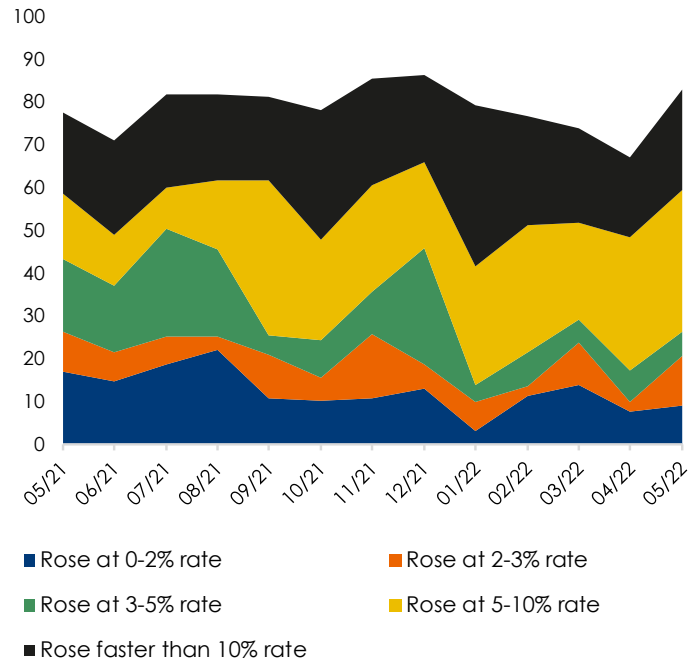
Underlying inflation measures/2

Trimmed mean and median CPI signal that large price changes are widespread



Source: Cleveland Fed

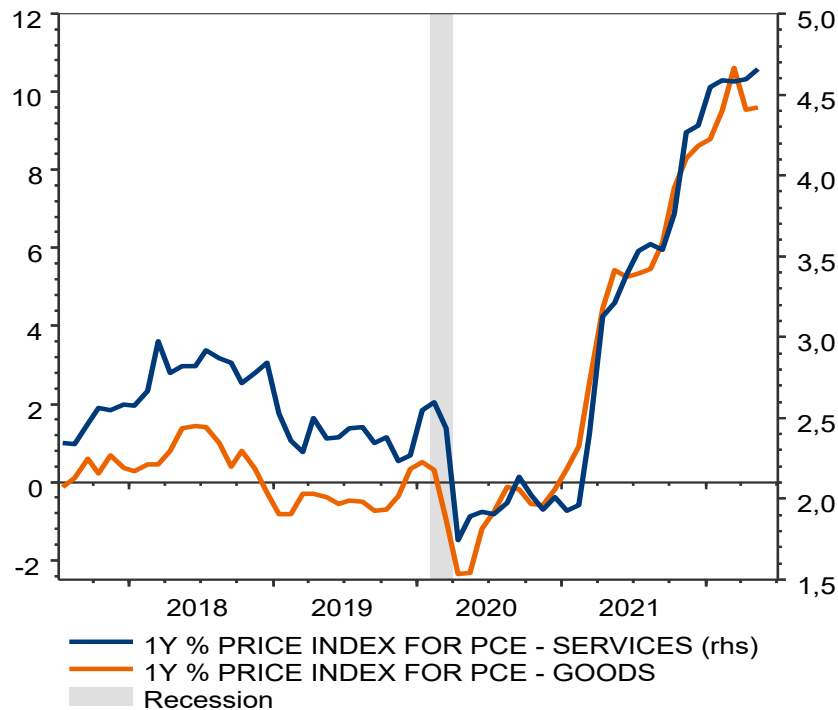
In May, 62.2% of components of the personal consumption deflator increased by more than 3% ann.



Source: Dallas Fed. Percentage of components each month, weighted by their shares in total spending, for which prices grew between 0 and 2 percent (at an annual rate); between 2 and 3 percent; between 3 and 5 percent; between 5 and 10 percent; and more than 10 percent.

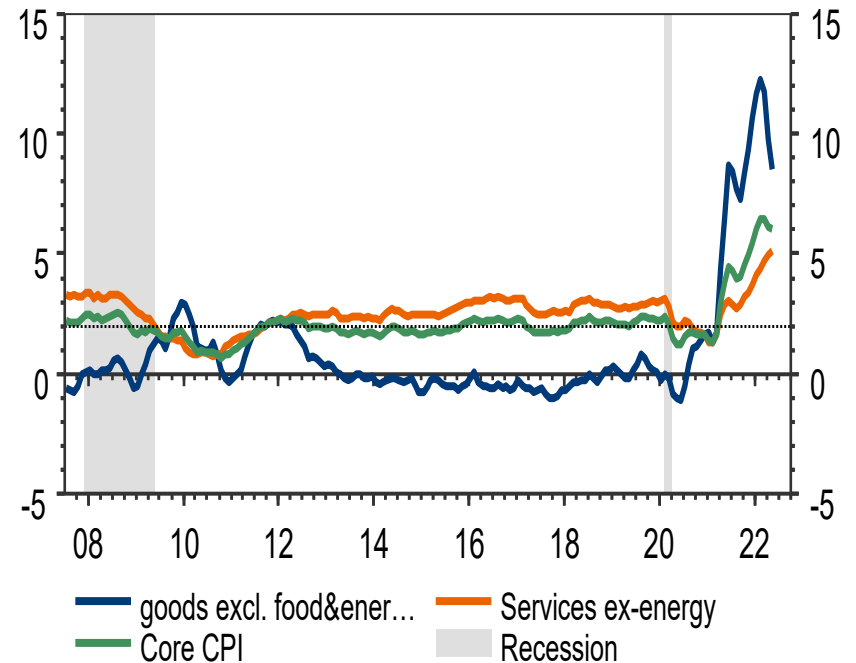
Pressures from both goods and services

PCE deflator: goods and services



Source: BEA

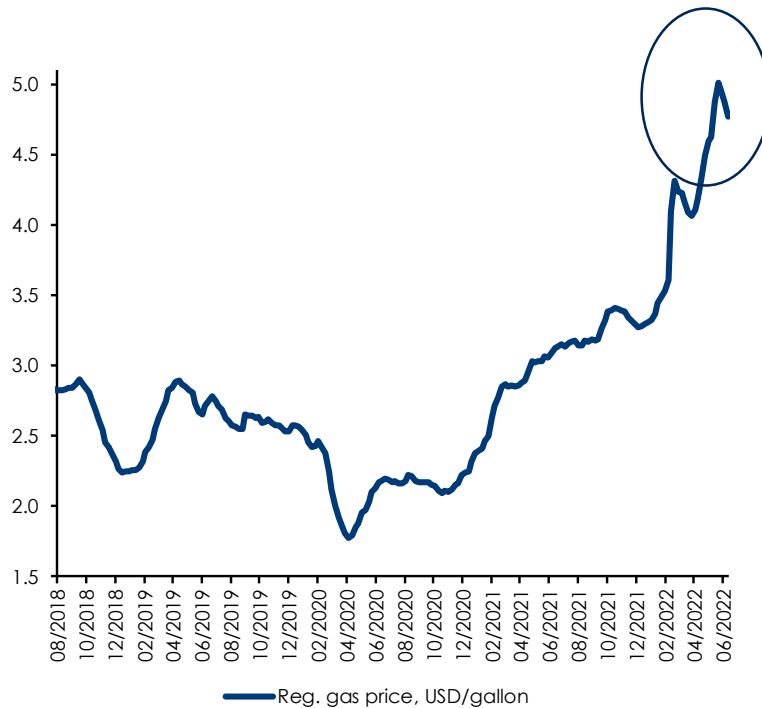
CPI core: goods and services



Source: BLS

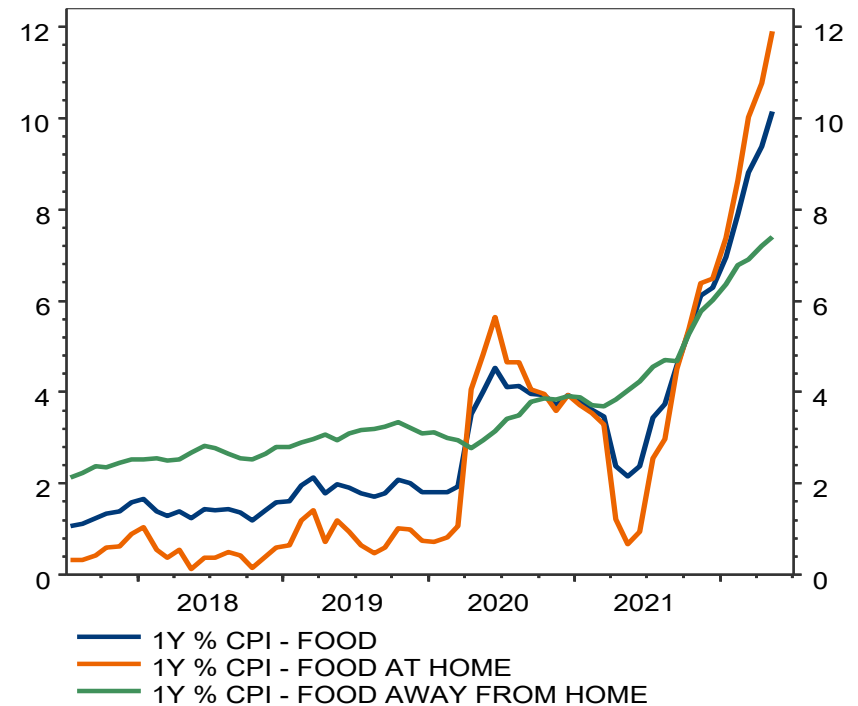
Goods: a mixed picture/1

Gasoline: is this the peak?



Source: FRED

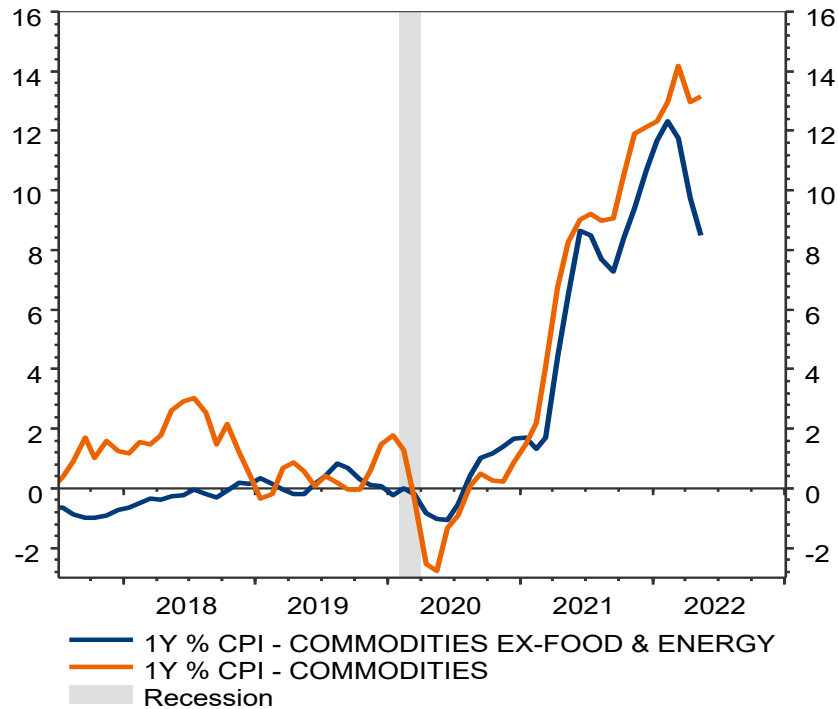
Food, still flying high, has a 13.421% weight in the CPI



Source: BLS

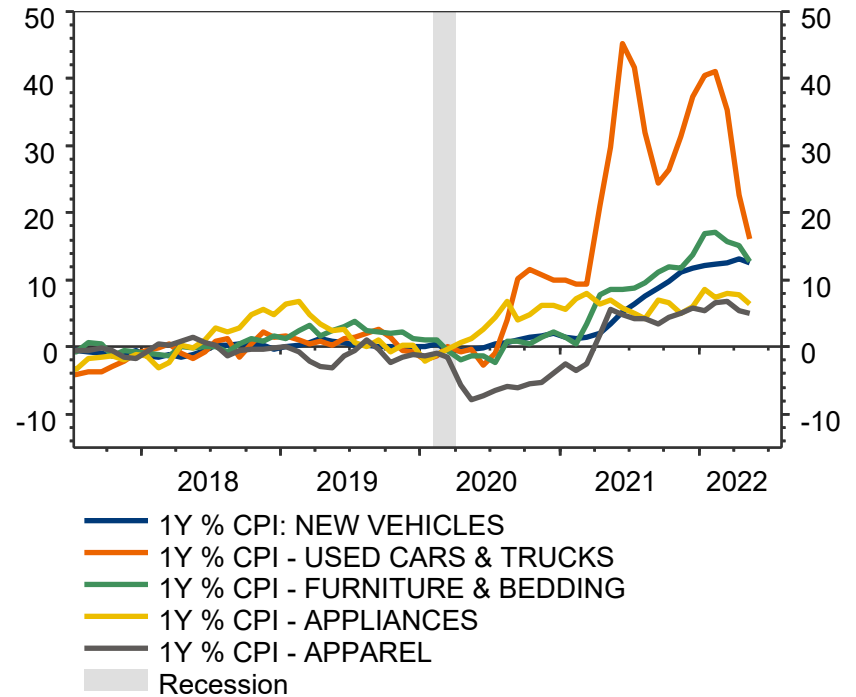
Goods: a mixed picture/2

The monthly rate of increase of prices is slowing in some sectors...



Source: BLS

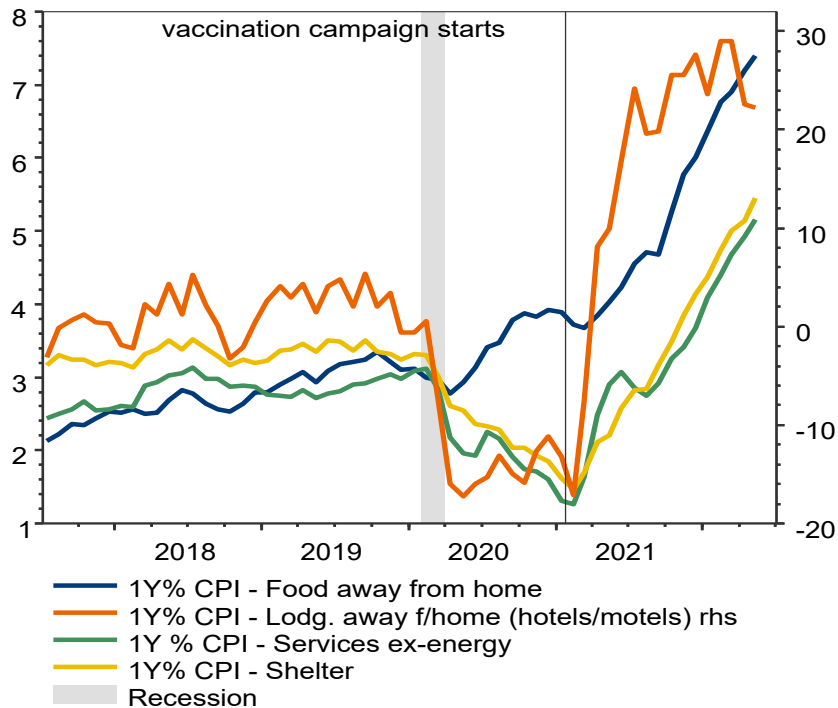
...but core commodity inflation is still far from historical norms



Source: BLS

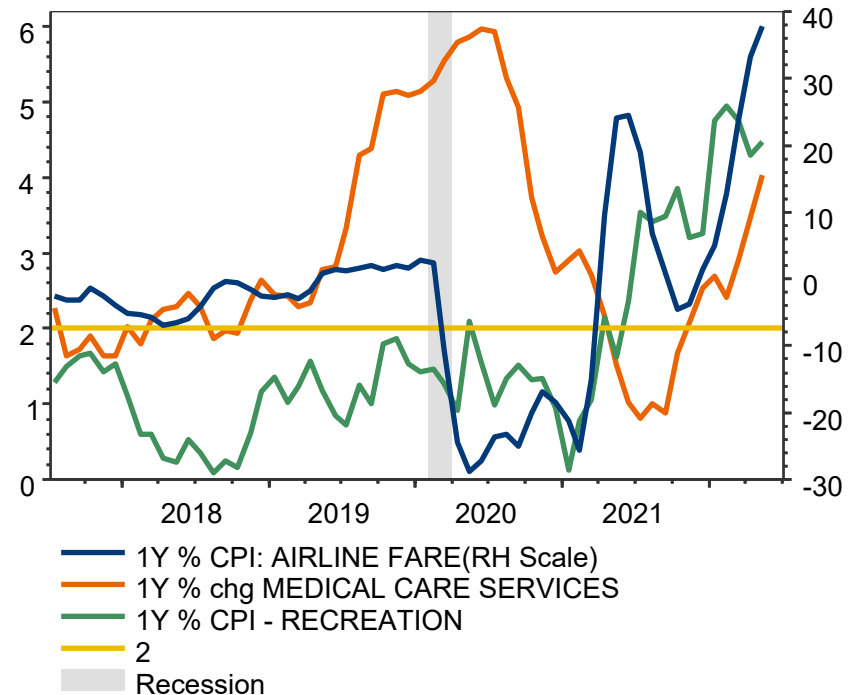
Services still picking up speed

Service prices booming not only in housing, but in all sub-sectors...



Source: BLS

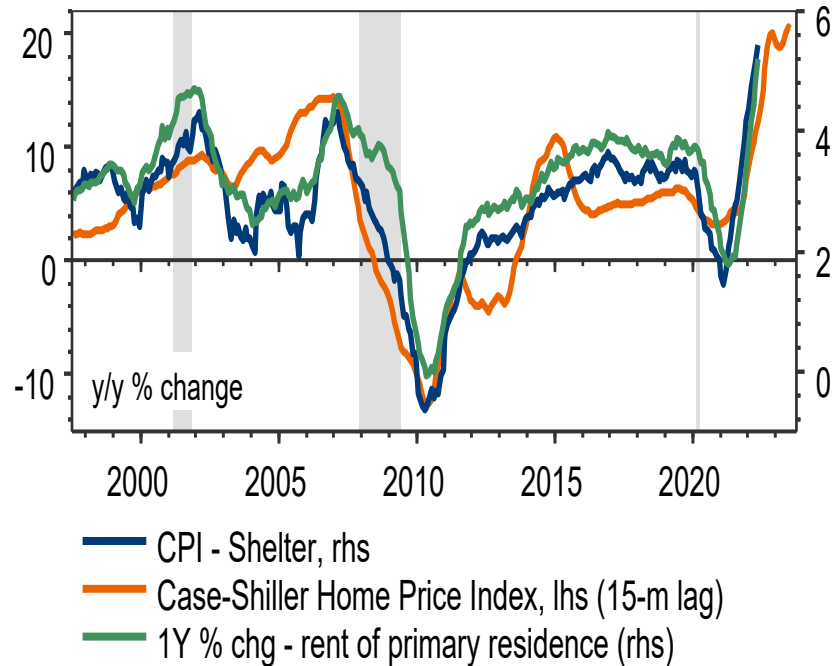
...since the reopening of activities



Source: BLS

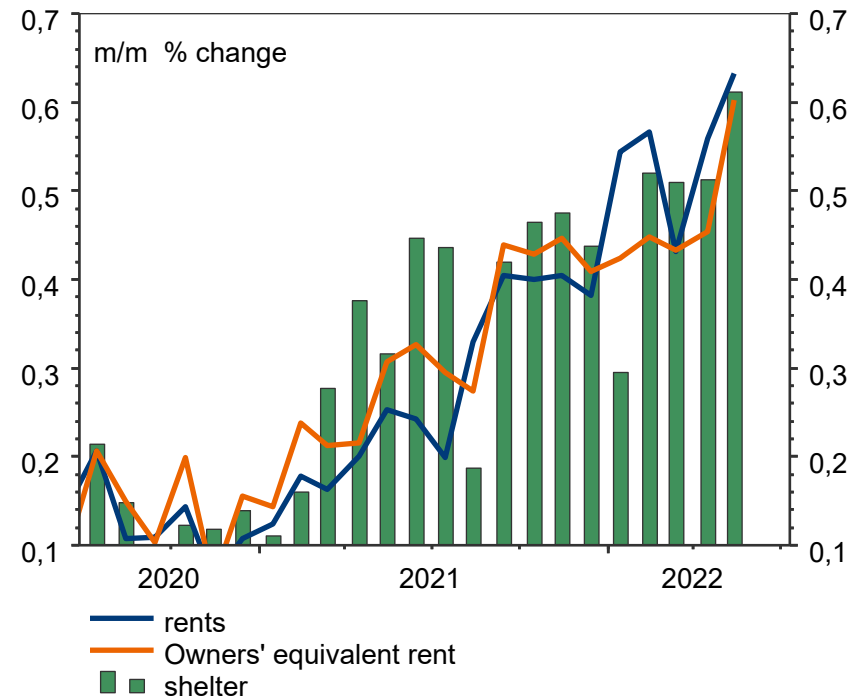
House prices will keep driving up shelter costs

Housing is the largest contributor to higher core inflation



Source: BLS, Refinitiv Datastream

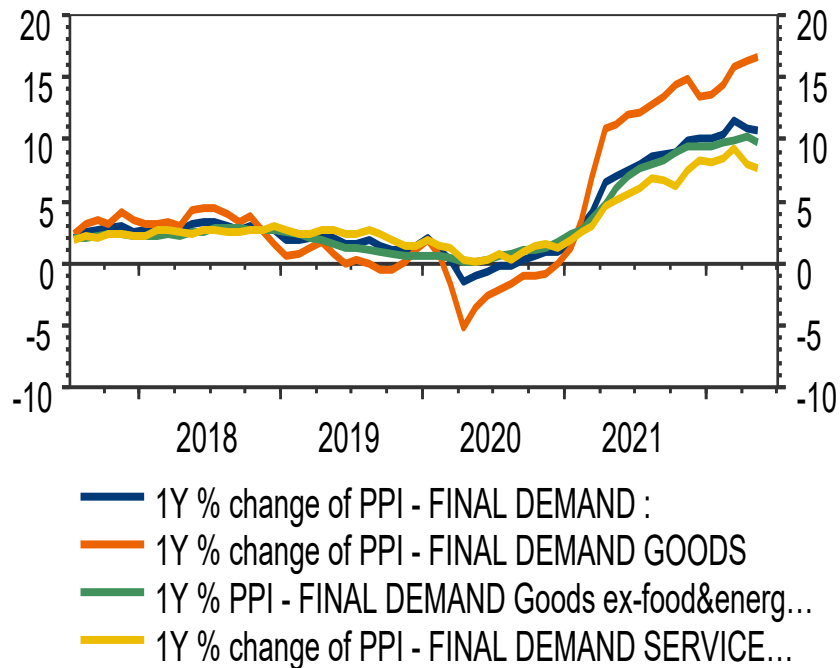
Inertia in rent-setting will keep pressures elevated well into 2023



Source: BLS

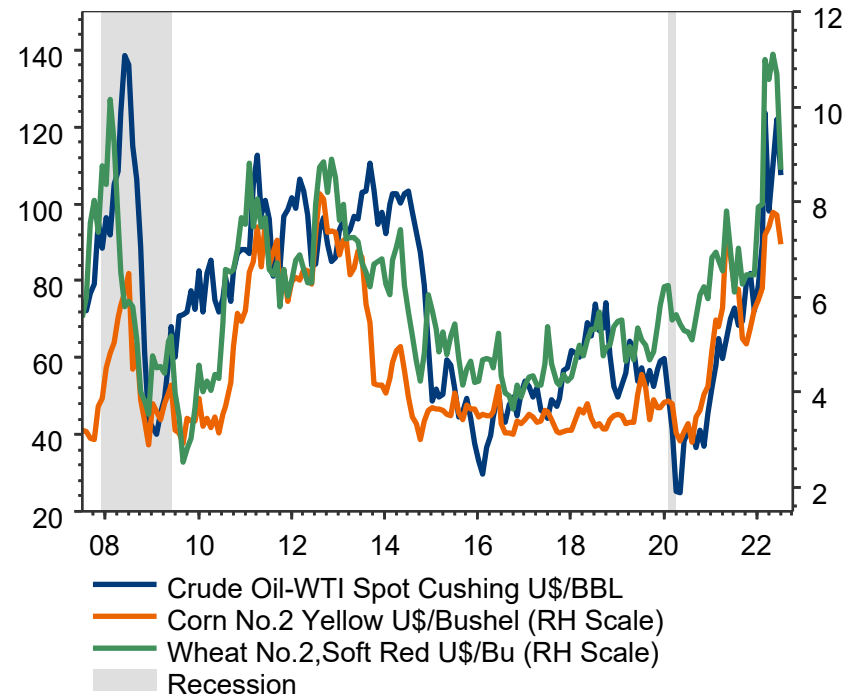
Non-labor input pressures may be peaking/1

PPI: slower demand and reduced supply shortages may open the door to stabilization



Source: BLS

Commodities: monthly changes are turning down



Source: Refinitiv Datastream

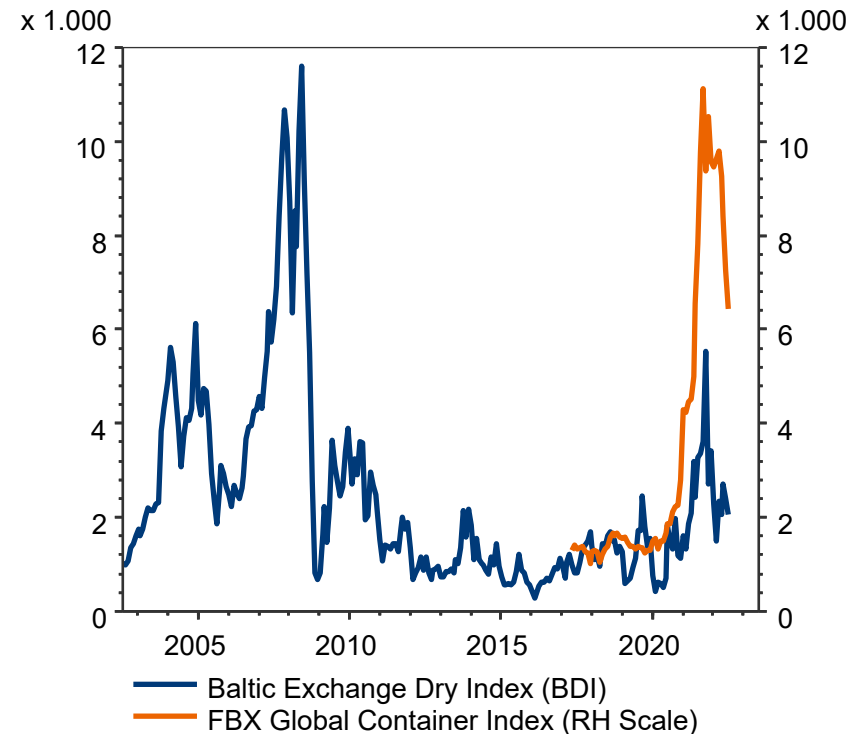
Non-labor input pressures may be peaking/2

NY Fed global supply chain pressure index



Source: Refinitiv Datastream

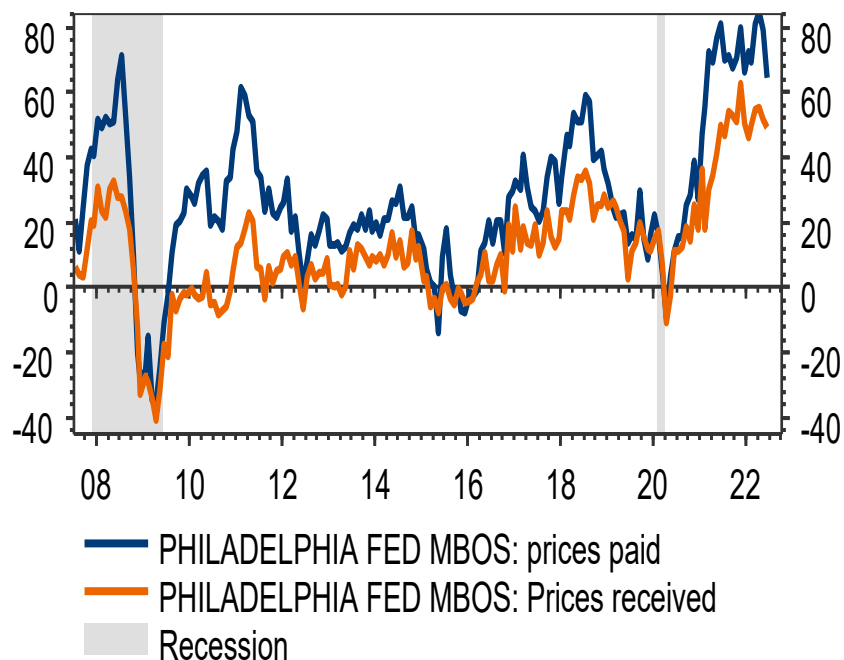
Shipping costs retreating



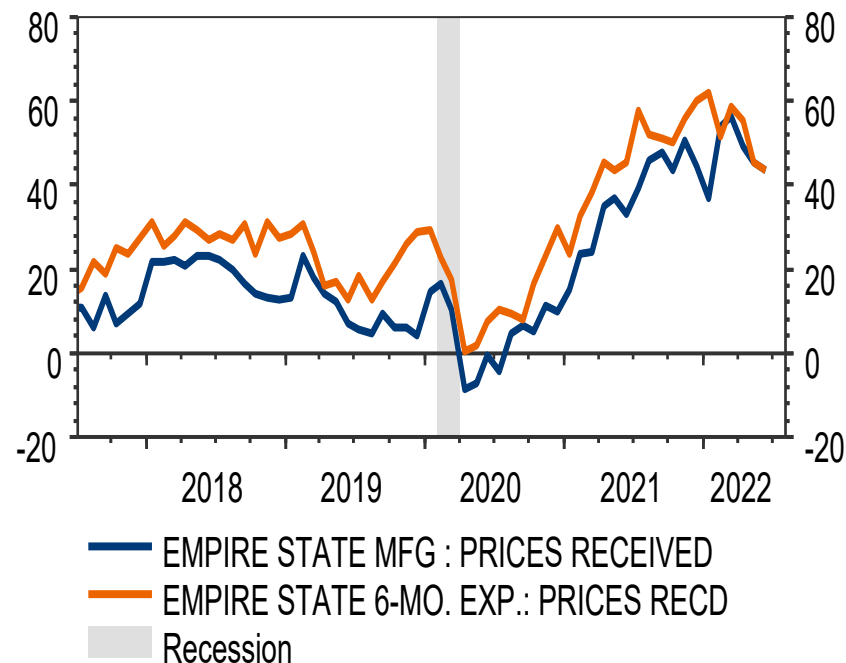
Source: Refinitiv Datastream

Business pricing power is stabilizing, but remains significant/1

Philadelphia Fed



NY Fed's Empire

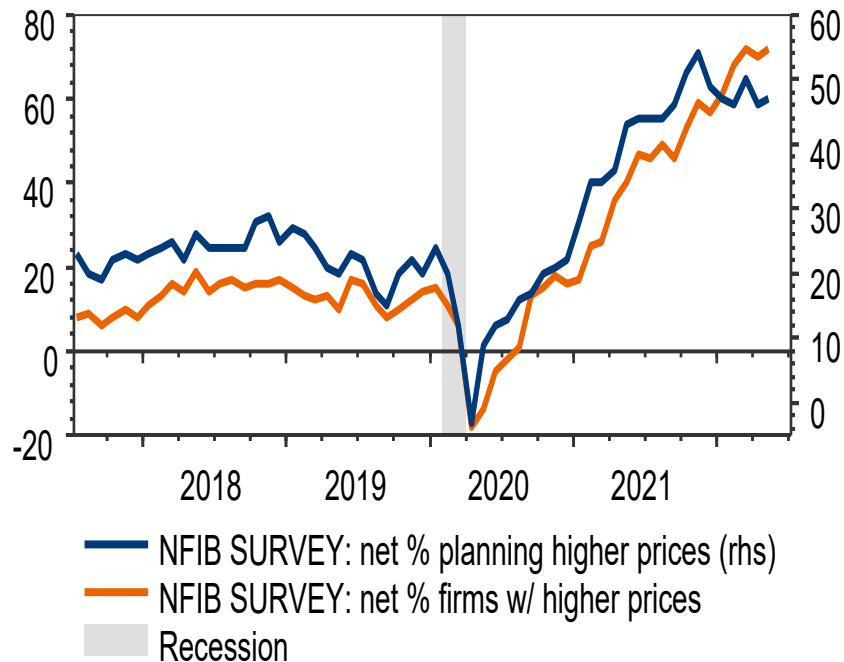


Fonte: Refinitiv Datastream

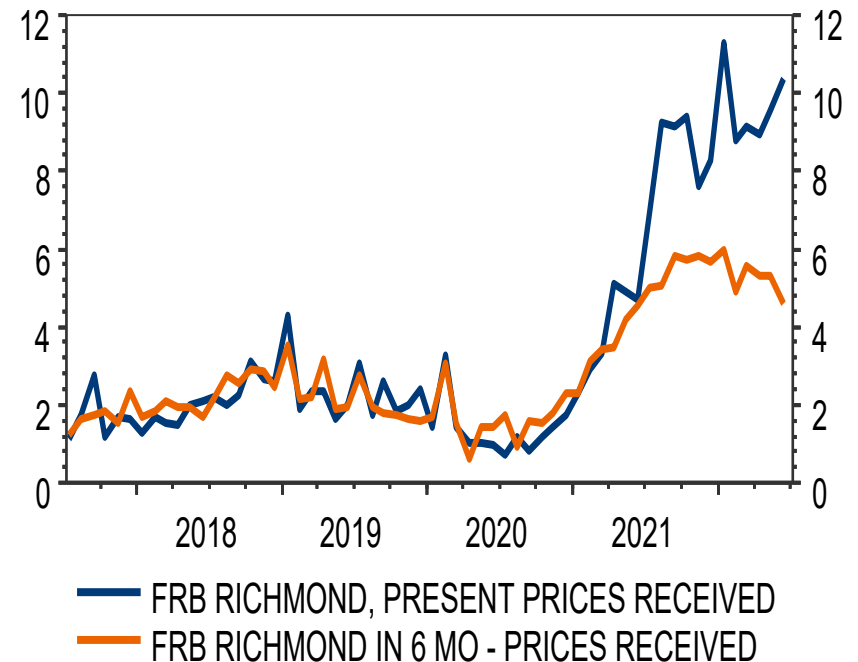
Fonte: Refinitiv Datastream

Business pricing power remains significant/2

NFIB



Richmond Fed

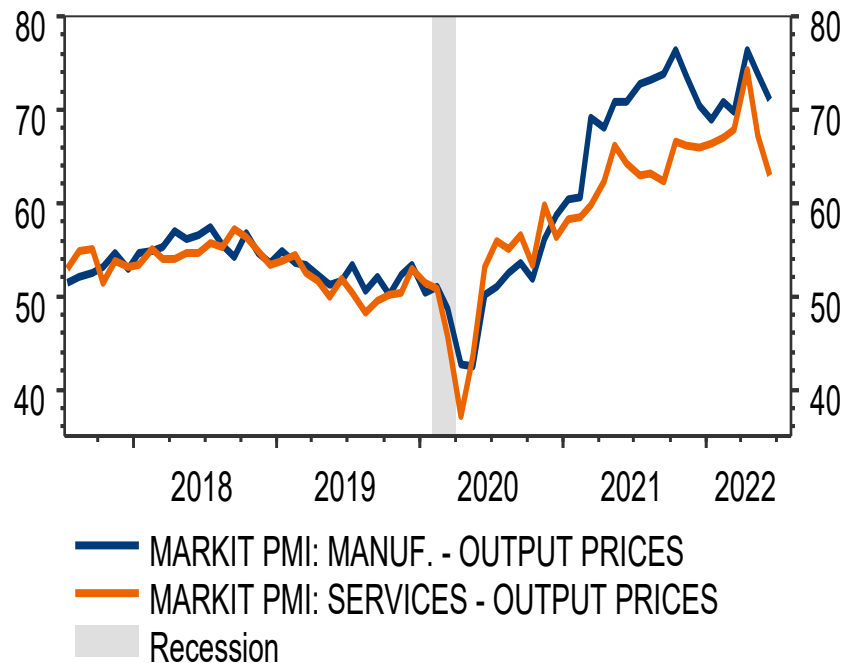


Fonte: Refinitiv Datastream

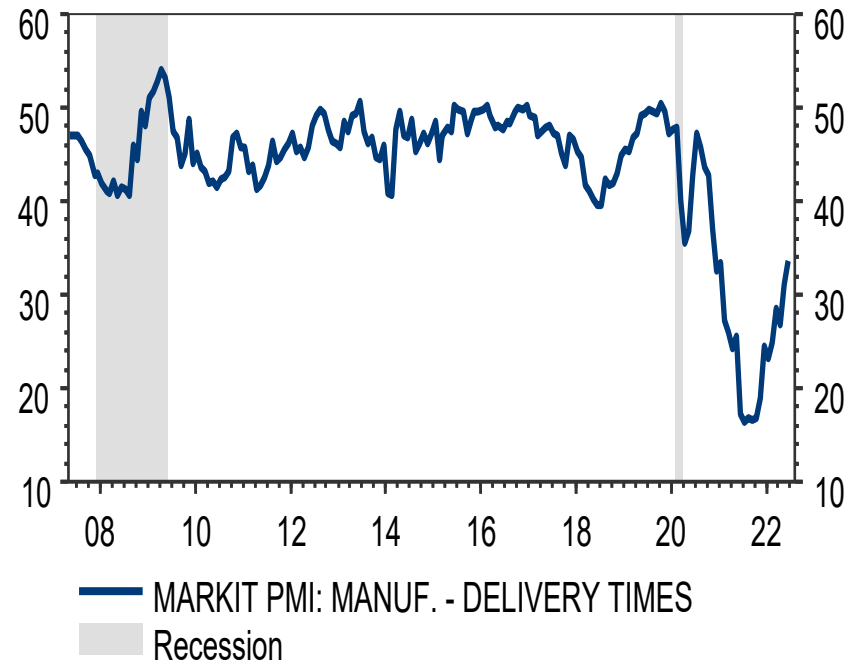
Fonte: Refinitiv Datastream

Business pricing power remains significant/3

PMI output prices



PMI delivery times

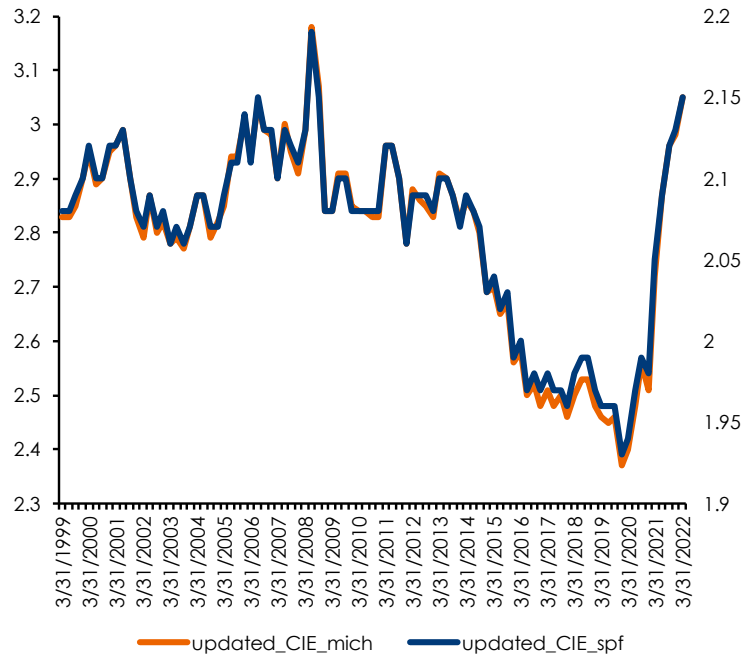


Fonte: Refinitiv Datastream

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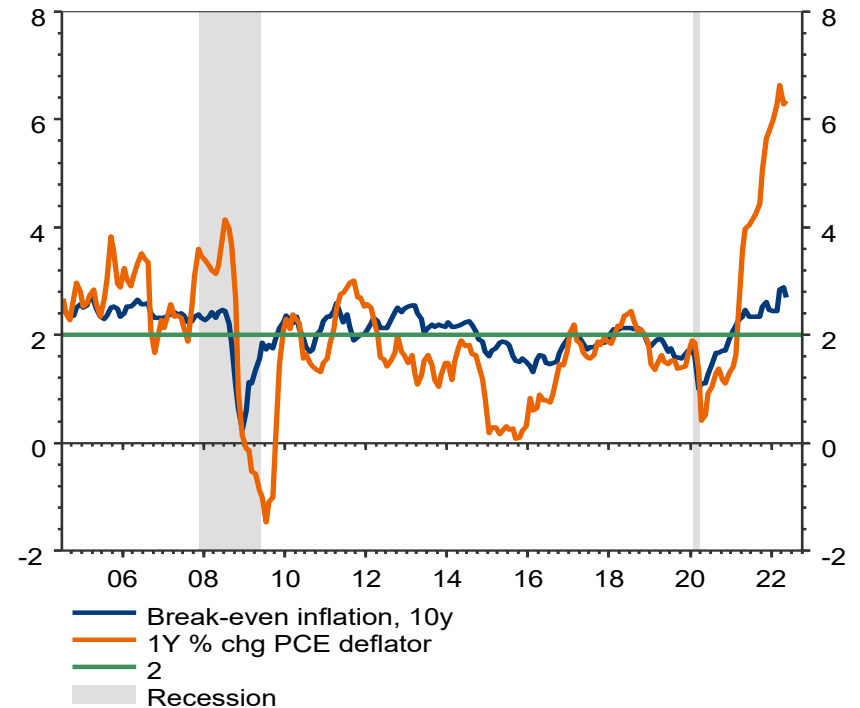
Inflation expectations on the rise/1

Common inflation expectations index: the Fed is worried by the unanchoring of inflation expectations



Source: Federal Reserve Board

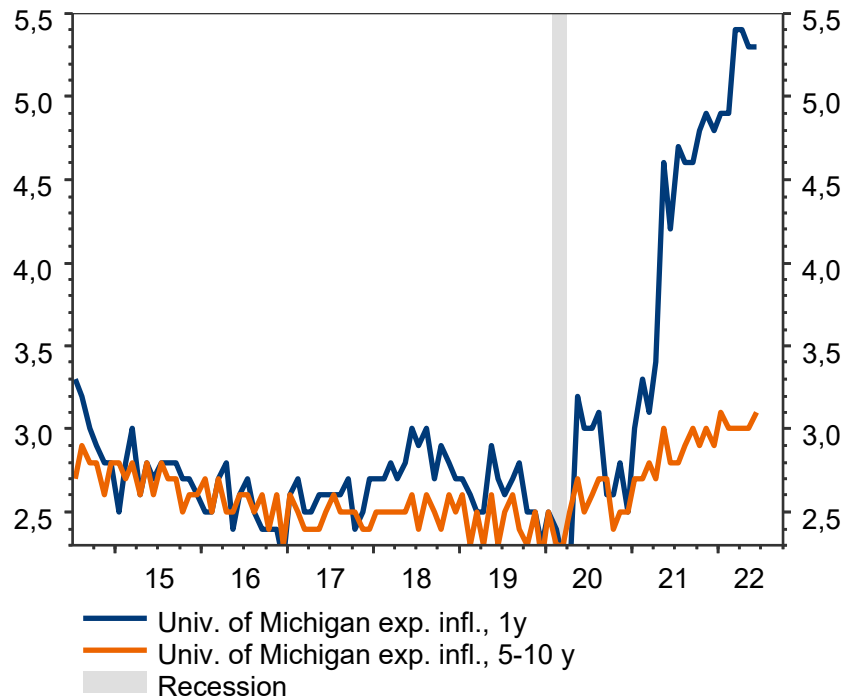
Tug of war between break-even and actual inflation



Source: BEA, Refinitiv Datastream

Inflation expectations on the rise/Consumers

Univ. of Michigan



Source: University of Michigan

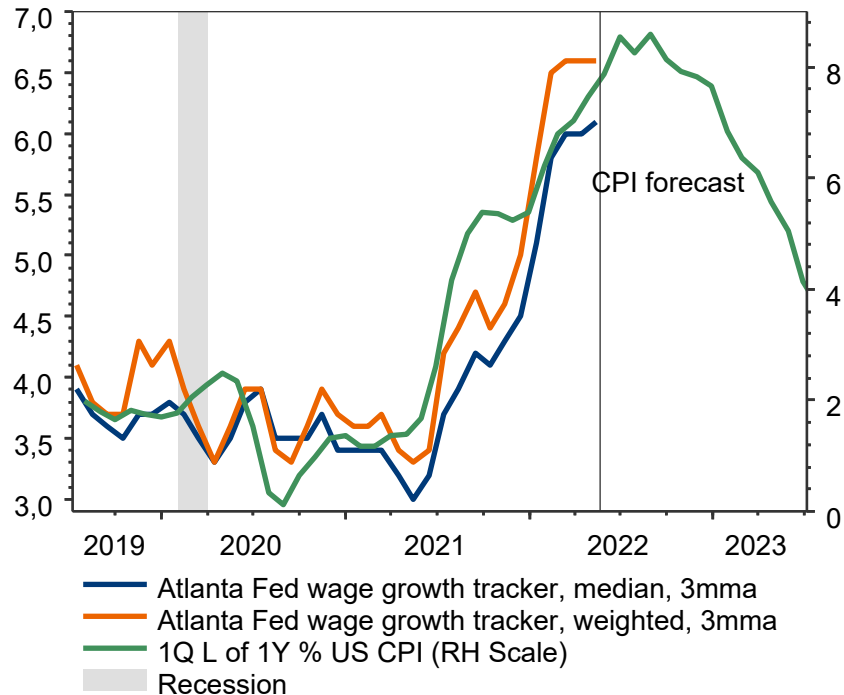
NY Fed



Source: NY Fed

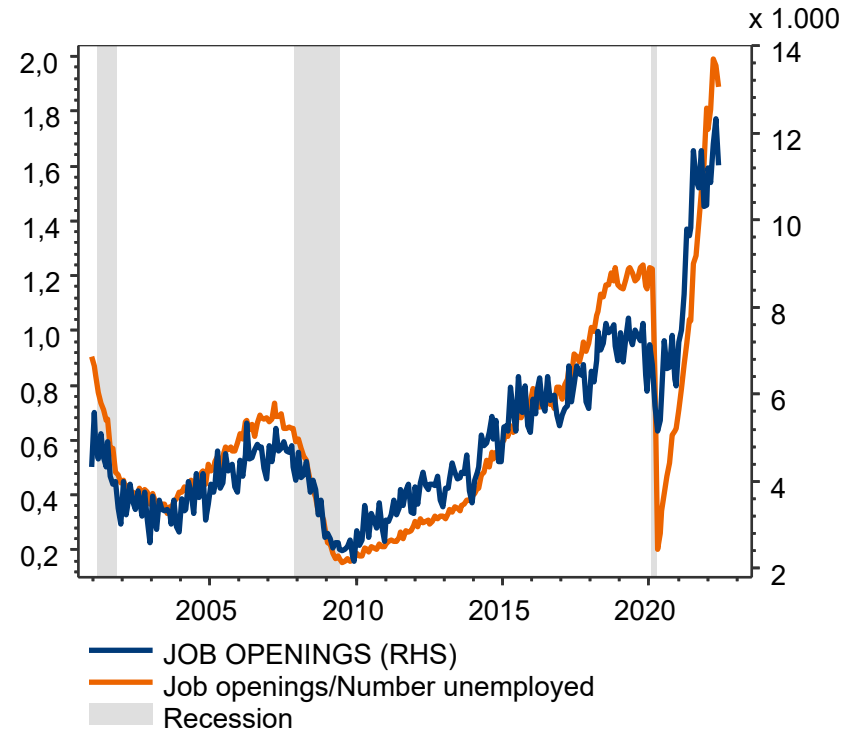
Wages are driven up by inflation but also by persistent excess demand on the labor market

Wages are chasing prices



Source: BLS, Atlanta Fed, Intesa Sanpaolo forecasts

Too much demand, too little supply: there are 1.9 job openings for each unemployed individual



Source: BLS

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