

INFLATION



Goods Inflation

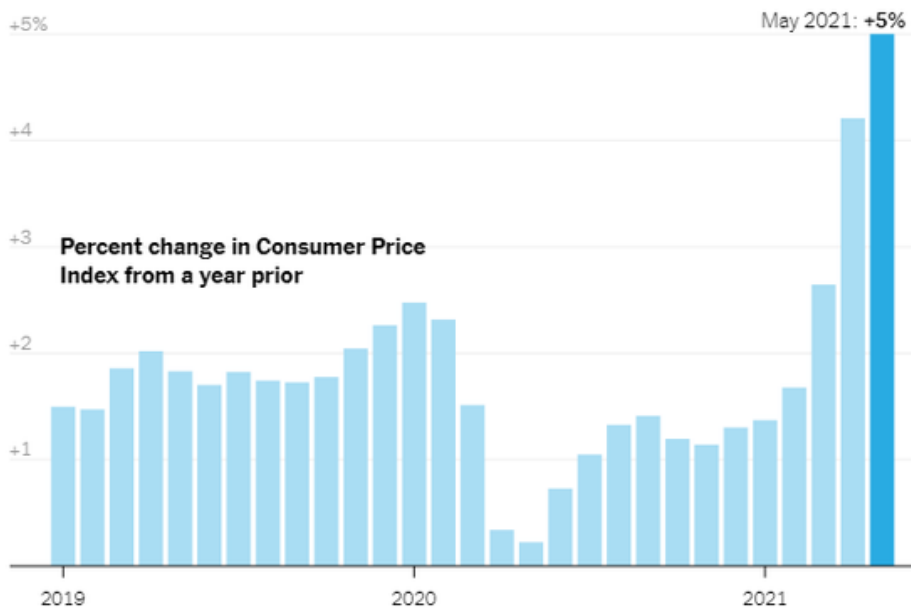
Personal consumption x-energy up avg ***2.8%** over 20 years up to 2020

*Source: U.S. Bureau of Economic Analysis



Services Inflation

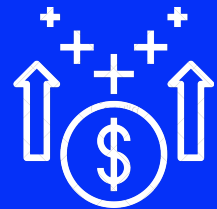
Have been essentially ***FLAT** over the last 20 years



Source: Bureau of Labor Statistics

May 2021 CPI
5%

- On the services side, labor is a large expense for the consumer-based/services sector, and as the demand for services increases so will the power of labor (i.e. wage inflation).
- Wages are "sticky inflation"—it is hard to back off from a wage increase. In most recessions wages stagnated or fall—not this time—unprecedented stimulus maintained incomes and now these workers have more power because of the ship shortages hastening the decline vs robots.
- Prices become unanchored rather than being anchored to prior prices. When prices become unanchored you get inflation.

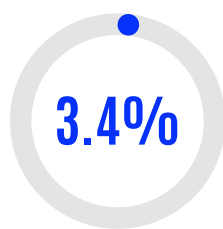


Disinflationary forces are reversing and providing an ample runway for inflation to rise.



Price index tracking personal consumption expenditure (PCE)

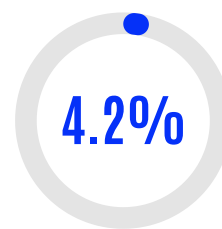
Highest level since August 2008



Core PCE Inflation (excluding food and energy)

Highest level since April 1992

Source: Bloomberg

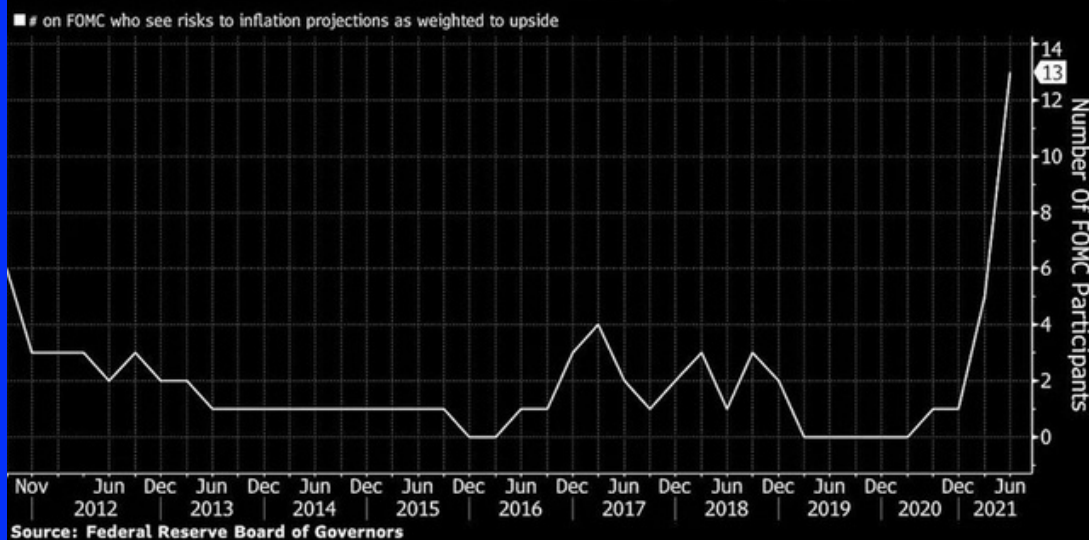


Inflation expectations fell slightly

Consumers believe that price surges will likely be temporary

Upside Risks

FOMC more worried about inflation after two hot reports on prices



Source: Federal Reserve Board of Governors

"St. Louis Fed President James Bullard—and his counterparts in Atlanta and Dallas, Raphael Bostic and Robert Kaplan—all cited the risk of persistent higher inflation in public appearances this week, arguing it would probably be appropriate to begin raising their benchmark rate from its current near-zero level some time in 2022."

Source: Bloomberg

For more information, contact us at aline@alinewealth.com.

