

Economic highlights from the week ending on June 11, 2021

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Consumer prices rose faster than expected in May. The Consumer Price Index (CPI) was up 5.0% year-over-year in May versus up 4.2% in April. Core CPI (CPI less food and energy) was up 3.8% year-over-year in May, versus up 3.0% in April. On a month-over-month basis, headline CPI rose 0.6% in May, ahead of the 0.4% consensus forecast. The increase was driven in part by a continued surge in used vehicle prices in May, with prices up 7.3% month-over-month following a 10.0% increase in April. On a year-over-year basis, used cars and trucks are up 29.7%, according to the index, which is largely a result of supply chain issues and shortages. Energy prices are up 28.5% year-over-year, measured against the severe decline in energy prices in the early stages of the pandemic last year. However, pricing pressure for food and shelter has been more muted with each category up an average of 2.2% year-over-year. It is uncertain if current inflationary pressures will be temporary or more persistent, but we believe the Fed is looking through the near-term inflation data. The Fed expects “base effects” (i.e., comparing current prices to prices at the early stage of the pandemic when prices were under pressure), bottlenecks, and ongoing supply chain disruptions to cause near-term pricing pressures, but the Fed still believes these factors will be temporary. Notably, the base effects should start to phase out in the next CPI report, given that prices started to rebound in June of last year, but supply chain issues may take several months to normalize.



The Treasury yield curve has flattened this month, driven by a decline in longer-term yields. We believe this is due in part to a more moderate longer-term outlook for inflation despite the recent uptick in CPI. Month-to-date, the 10-year Treasury yield is down about 17 basis points to 1.45% (at the time of this report). While multiple factors are likely influencing longer-term Treasury rates, including market technicals, we believe a more modest forecast for US fiscal spending is one of the factors. A bipartisan group of lawmakers is currently negotiating the terms of a potential infrastructure bill that would be significantly lower than the Biden administration’s initial proposal. Nevertheless, we believe longer-term rates have room to move higher this year. Looking ahead, we believe the Treasury yield curve is poised to steepen, which would be consistent with continued improvement in economic activity.



Next Week

Retail Sales, PPI, Industrial Production, Housing Market Index, Housing Starts & Permits, FOMC Announcement, Philly Fed, Leading Indicators

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