

Economic Indicator — September 14, 2021

August CPI: Off the Boil but Still Hot

Summary

A softer increase in the August CPI lends credence to the Fed's view that the flurry of inflation experienced earlier this year will prove "transitory." The headline Consumer Price Index rose 0.3%, with the core inching up just 0.1%. Used cars and travel services—the biggest drivers of the surge in inflation this spring—fell over the month. However, inflation remains strong for food, housing and other goods. Inflation may be coming off the boil, but with supply issues for both goods and labor lingering, it is still expected to remain hot well into next year.

Economist(s)

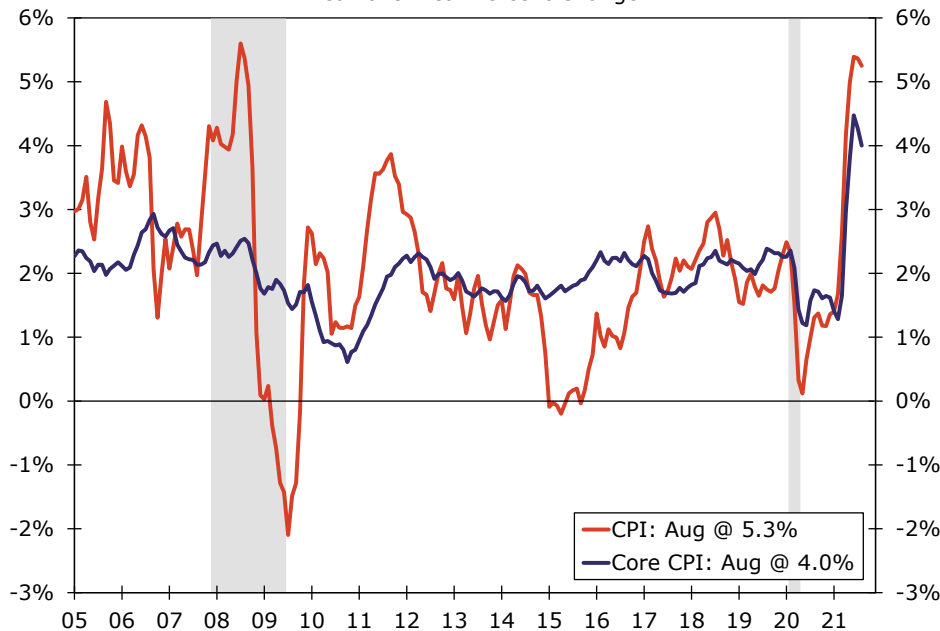
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Headline CPI vs. Core CPI
 Year-over-Year Percent Change



Source: U.S. Department of Labor and Wells Fargo Securities

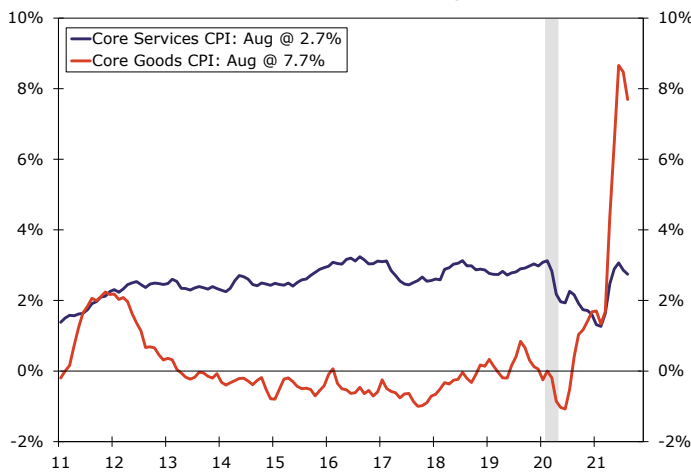
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Reopening in Retreat

Consumer price inflation cooled more than expected in August, giving credence to the notion that this spring's surge in prices was indeed temporary. The Consumer Price Index rose 0.3%, the smallest monthly gain since January. Yet while prices in categories driving the increase earlier in the year have cooled off, others are picking up the baton. Inflation looks set to remain elevated as a result, prolonging the debate over how long "transitory" is.

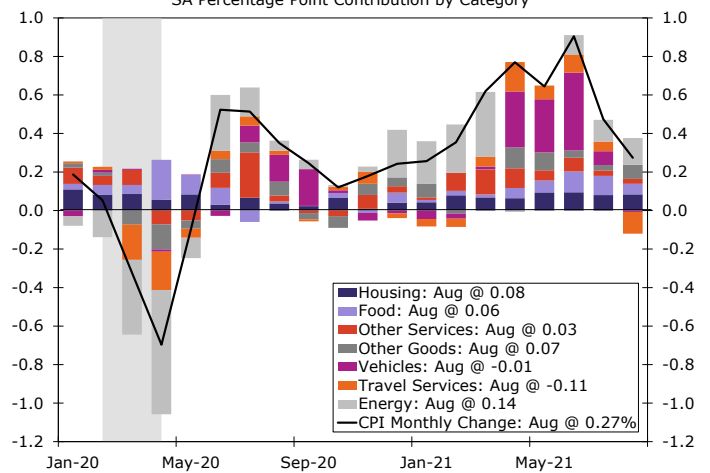
Prices in categories that were the biggest inflation drivers this spring retreated in August and were largely responsible for the weaker print. Used car prices fell 1.5%, following the pattern of wholesale prices over the past few months. At the same time, reignited COVID concerns took a clear toll on travel-related prices, with airfare, car rental and hotel prices all down over the month.

Core Goods vs. Core Services CPI
Year-over-Year Percent Change



Source: U.S. Department of Labor and Wells Fargo Securities

CPI Monthly Change
SA Percentage Point Contribution by Category



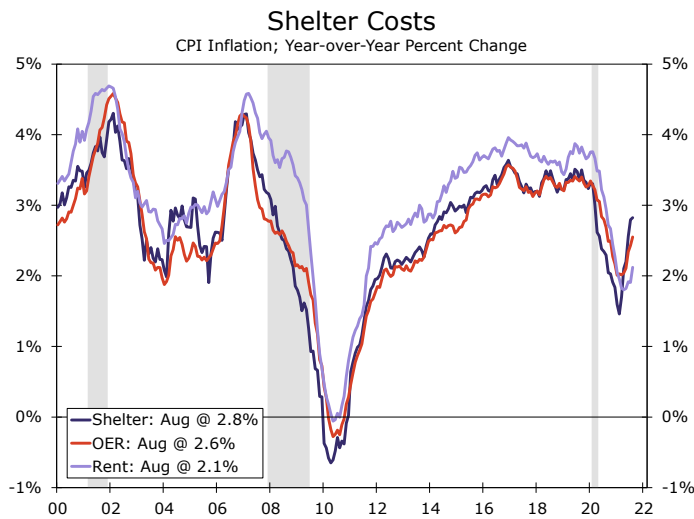
Source: U.S. Department of Labor and Wells Fargo Securities

Inflation Cools but Becomes More Balanced

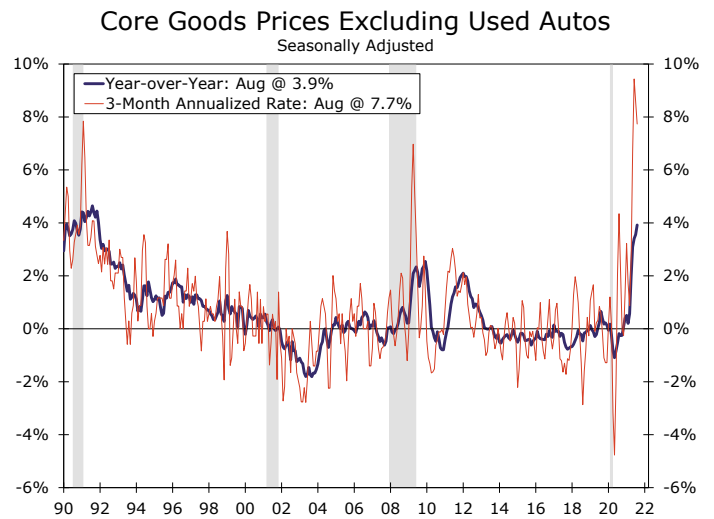
Beyond the most pandemic-affected categories, however, inflation pressures remain strong. Food prices rose 0.4% at both groceries and restaurants and are up 3.7% from a year ago. Elevated commodity prices and ongoing wage pressures in food services and the grocery business point to prices continuing to rise at a strong clip for at least a few more months.

An upward trend in housing inflation has become more obvious but still is in its early stages. Rent and owners' equivalent rent (OER) both edged up 0.3%, sending year-over-year gains noticeably higher. But with home prices up 19% over the past year—a bigger one-year increase than at any point during the housing bubble of the 2000s—and the glacial pace at which market conditions are reflected in the CPI (and PCE deflator), the lift to inflation from shelter is just getting started. Over the past year, rent and owners' equivalent rent have added 0.78 to the headline, but we could see that contribution nearly doubling over the next 1-2 years.

Meanwhile, core goods excluding used autos were up 0.7% in August. Ongoing logjams across the supply chain has kept the heat turned up on goods broadly, including new vehicles (+1.2%), household furnishings (+1.2%) and recreational goods (+1.0%).



Source: U.S. Department of Labor and Wells Fargo Securities



Source: U.S. Department of Labor and Wells Fargo Securities

FOMC: Labor, Not Inflation, the Final Hurdle to Clear for Tapering

While the sharpest price hikes associated with reopening and supply shortages are likely behind us, we do not expect inflation to quickly snap back to its anemic pre-COVID pace. The Delta wave has weighed on prices in the travel sector, but it has [prolonged supply woes](#) for both goods and labor. Ongoing upward pressure on wages and goods prices will keep the heat turned up on inflation over the coming months. We expect the CPI to remain around 5% through the first quarter of next year. Even as base effects become more challenging next summer and the supply and demand picture becomes more balanced, inflation is likely to remain above 2% both for the CPI and PCE.

The longer inflation remains elevated, the more likely it is to become entrenched. Currently, longer-term measures of inflation expectations have come off the mat from their historic lows and are not wildly inconsistent with 2% inflation over time. That is likely to assuage the fears of FOMC members increasingly uncomfortable with recent inflation readings, and, along with dampened growth prospects surrounding Delta, give cover to wait for a bit more progress on the labor market front before starting to scale back accommodation. Indeed, Chair Powell declared that the "substantial further progress" test has been met for inflation, which likely means that a November versus December taper announcement will come down to the September employment report to be released on October 8.

Pressure Gauge

Indicator	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	
Time	ISM Manufacturing Supplier Deliveries	57.3	65.0	76.0	68.0	56.9	55.8	58.2	59.0	60.5	61.7	67.7	68.2	72.0	76.6	75.0	78.8	75.1	72.5	69.5
	ISM Services Supplier Deliveries	52.4	62.1	78.3	67.0	57.5	55.2	60.5	54.9	56.2	57.0	62.8	57.8	60.8	61.0	66.1	70.4	68.5	72.0	69.6
	Ships at Anchor-LA & Long Beach (Mo. Avg.)	0.0	0.0	0.0	0.0	0.0	0.5	2.0	1.5	4.3	10.0	22.2	32.1	32.6	26.5	21.5	18.9	13.8	21.4	33.4
Volume	Taiwan Electronic Product Exports (YoY)	46.2%	18.1%	24.3%	13.2%	23.8%	15.6%	19.1%	26.1%	21.8%	19.5%	22.2%	47.5%	14.4%	24.5%	34.0%	29.6%	29.8%	33.6%	21.9%
	Cass Freight Index (YoY)	-7.5%	-9.2%	-22.7%	-23.6%	-17.8%	-13.1%	-7.6%	-1.8%	2.4%	2.7%	6.7%	8.6%	4.1%	10.0%	27.6%	35.3%	26.8%	15.6%	
	Unfilled Orders (3-Mo. Ann.)	7.6%	3.7%	0.9%	-2.2%	-0.3%	2.8%	4.0%	5.1%	6.2%	7.4%	6.7%	8.4%	10.8%	14.7%	15.1%	15.3%	13.2%	13.3%	
Price	World Container Index (WCI) (USD/40ft Box)	\$1,633	\$1,520	\$1,500	\$1,549	\$1,788	\$2,009	\$2,144	\$2,541	\$2,592	\$2,806	\$3,955	\$5,263	\$5,227	\$4,991	\$4,919	\$5,898	\$7,052	\$8,879	\$9,556
	WCI: Shanghai-Los Angeles (USD/40ft Box)	\$1,525	\$1,433	\$1,615	\$1,718	\$2,343	\$2,923	\$3,283	\$3,934	\$4,072	\$4,047	\$4,118	\$4,186	\$4,292	\$4,234	\$4,267	\$5,453	\$6,793	\$9,797	\$10,721
	PPI Transp. & Ware. of Goods (3-Mo. Ann.)	0.3%	-1.9%	-7.6%	-12.2%	-8.8%	1.0%	9.0%	8.0%	6.5%	7.8%	10.2%	10.7%	13.0%	16.3%	16.5%	20.7%	16.0%	12.6%	6.5%
	Dry Van Rate Per Mile (YoY of 4-Wk. Mov. Avg.)	-3.3%	-2.3%	4.1%	-3.6%	-4.5%	3.4%	20.2%	33.0%	41.3%	48.7%	48.1%	39.0%	36.5%	49.5%	51.4%	70.0%	69.2%	43.7%	28.6%
Inventory	Inventory-to-Sales Ratio (All Businesses)	1.42	1.50	1.73	1.55	1.41	1.36	1.35	1.35	1.35	1.35	1.35	1.30	1.33	1.26	1.25	1.26	1.25		
	ISM Manufacturing Consumer Inventories	41.8	43.4	48.8	46.2	44.6	41.6	38.1	37.9	36.7	36.3	37.9	33.1	32.5	29.9	28.4	28.0	30.8	25.0	30.2
	Inventory Too Low (Net % of Firms)	-3.5%	-1.5%	-6.6%	-4.5%	1.2%	1.3%	2.7%	4.8%	4.4%	4.9%	6.5%	5.3%	4.5%	2.5%	7.0%	8.0%	11.0%	12.0%	11.0%
Labor	Production & Manuf. Posts (vs. Feb. 2020)	0.2%	1.3%	-30.0%	-31.6%	-23.7%	-13.8%	-6.1%	4.2%	12.9%	20.6%	27.4%	26.3%	38.2%	46.8%	63.5%	74.8%	76.7%	84.0%	78.0%
	Loading & Stocking Posts (vs. Feb. 2020)	1.4%	-0.4%	-32.5%	-32.7%	-17.6%	-0.8%	4.6%	12.3%	28.2%	38.8%	39.0%	26.3%	38.9%	46.4%	61.7%	72.7%	76.6%	90.2%	72.0%

Source: Institute for Supply Management (ISM), Bloomberg LP, Taiwan Ministry of Finance, U.S. Department of Labor, Drewry, U.S. Department of Commerce, National Federation of Independent Business (NFIB), Indeed.com and Wells Fargo Securities

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