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Macro Alert

Still No Reason to Panic About Inflation

From the Office of the Global Chief Investment Officer, Scott Miner

By the Macroeconomic and Investment Research Group

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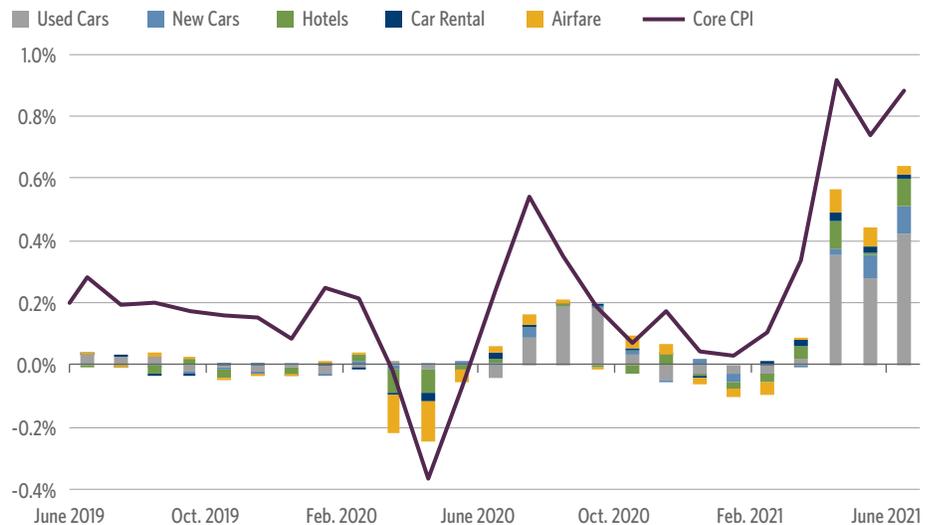
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June’s Consumer Price Index (CPI) again surprised to the upside, adding fuel to headline-writers’ panic about inflation spikes and market speculation that the Federal Reserve (Fed) will need to act soon to rein in prices. We are not nearly as concerned.

The upside surprise, while sizeable, continues to be driven by a few small categories seeing outsized price increases. 64 of the 88 basis point month-over-month increase in core CPI was due to new and used autos, car rentals, hotels, and airfare. By far the largest driver among those categories was used car prices, which grew 10.5 percent over the month and contributed 42 basis points to the month-over-month core CPI print, despite having a weight of just 4 percent in the core CPI basket. This is not the picture of widespread, runaway inflation.

Autos and Reopening Sectors Still Explain Most of the Inflation Spike

Contribution to Monthly Percent Change in Core CPI

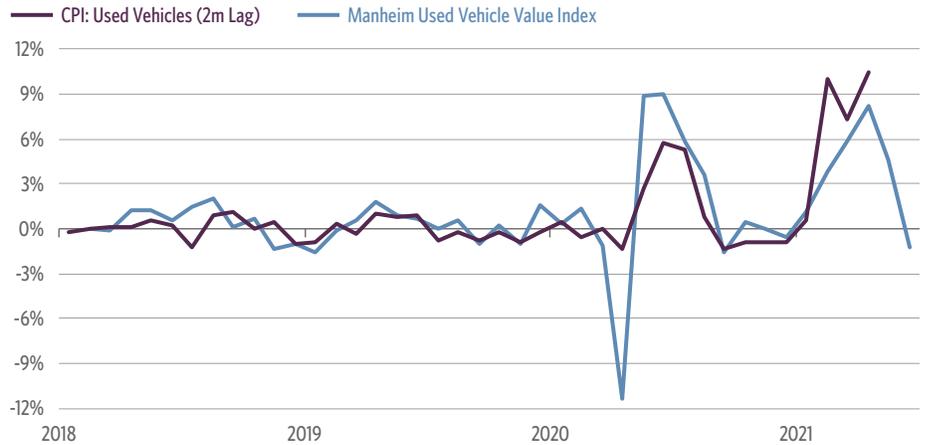


Source: Guggenheim Investments, Haver Analytics. Data as of 6.30.2021.

Those in the “non-transitory” inflation camp are betting not just that these categories will continue to see high prices, but that a rapid pace of price increases will continue. Sequential inflation is much more likely to moderate from here. Hotel prices have now risen above pre-COVID levels, and wholesale used car prices have already peaked, which will soon show up in the CPI data.

Used Car Inflation Set to Cool

Month-over-Month Percent Changes

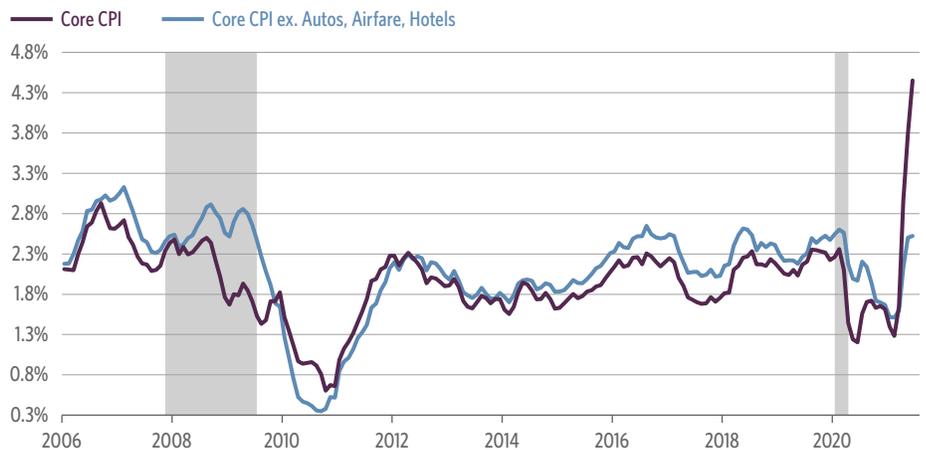


Source: Guggenheim Investments, Haver Analytics. Data as of 6.30.2021.

For inflation to stay elevated on a more sustained basis that could pull forward Fed hikes, we’ll need to see more economy-wide price increases, especially in the categories with larger weights such as healthcare and housing. The June CPI data suggest no reason for panic there: Healthcare prices were flat over the month, while rents and owners’ equivalent rents showed no acceleration from May.

Inflation Surge Is Not Widespread

Year-over-Year Percent Changes



Source: Guggenheim Investments, Haver Analytics. Data as of 6.30.2021. Note: Autos include new and used autos and auto rentals.

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Basis point - One basis point is equal to 0.01 percent.

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