

The Jump In US Inflation Is Transitory And Consistent With Our Recovery Story

May 14, 2021

Watching the jump in April consumer prices at first blush was unnerving. Headline CPI topped 4.2% year-over-year (a 13-year high) and core CPI reached 3.0% year-over-year (a twenty-five-year high).

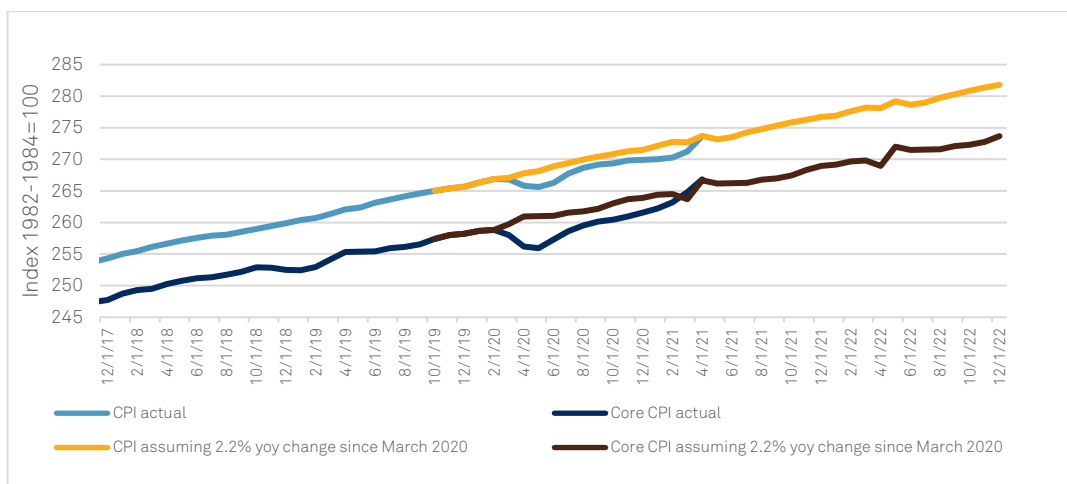
In contrast to much of the market commentary, we were not surprised. Indeed, we expected to see a spike in inflation as the U.S. economy climbs the acceleration ramp onto the superhighway, as GDP jumped 6.4% in the first quarter and we expect a surge of 11.3% in the second quarter fueled by a faster vaccination rollout and reopening schedule on top of sizable savings and pent-up demand. [As we have noted previously](#), an orderly, growth driven relation story is positive for both macro and credit.

We also believe the jump in inflation will be transitory. Why? We see it tied to the “base effect” from pandemic-depressed prices last year and near-term boost in prices from supply and labor bottlenecks as business activity catches up to the demand surge stemming from reopening. Even beyond the inflation spike in April and May driven by base effects, we think higher levels of stimulus-encouraged household savings will increase demand for goods and especially services, spurring inflation above 2% over the span of this year--but hardly to "runaway" levels.

How will things play out? We expect these near-term inflation swings to filter out of the economy over the year. Headline CPI to slow to 2.1% by 2022 after reaching 2.7% in 2021. After a second quarter boost, core CPI will likely come in around 2.1% for 2021 and drift higher, to 2.2% for 2022. Given a near-term rate of 2.2% CPI inflation would be consistent with the policy-setting Federal Open Market Committee's (FOMC) personal consumption expenditures (PCE) inflation target, that would place both headline CPI and Core CPI below the Fed's new average PCE inflation target of 2.0%.

Chart 1

Consumer Prices: Actual Relative to Trend



Source: BLS, S&P Global Economics calculations.

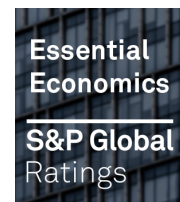
Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

CONTACTS

Beth Ann Bovino
U.S. Chief Economist
 55 Water Street, New York, NY
 +1 212 438 1652
bethann.bovino@spglobal.com

Paul F. Gruenwald
Global Chief Economist
 55 Water Street, New York, NY
 +1 212 438 1710
Paul.gruenwald@spglobal.com

FOLLOW US ON LINKEDIN AND SUBSCRIBE!



S&P Global Economics

These trends can be visualized in the chart. Here we plot actual and projected inflation – overall and core - relative to a 2.2% year-over-year path from March 2020 through December 2022 (where prices were trending in late 2019). Using these metrics puts the April price jump into perspective. The rise in inflation was necessary in order to offset the underperformance of inflation during this time last year and return to the desired path., Going forward, we don't expect the Fed to raise rates until sometime in 2023 including because the new monetary policy framework allows for a temporary inflation overshoot.

For more on this, please see [“Economic Research: U.S. Markets See Inflationary Ghosts; Macroeconomic Signs Disagree.”](#)

This product does not constitute a rating action.

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

Australia: S&P Global Ratings Australia Pty Ltd holds Australian financial services license number 337565 under the Corporations Act 2001. S&P Global Ratings' credit ratings and related research are not intended for and must not be distributed to any person in Australia other than a wholesale client (as defined in Chapter 7 of the Corporations Act).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.