

ECONOMIC PULSE

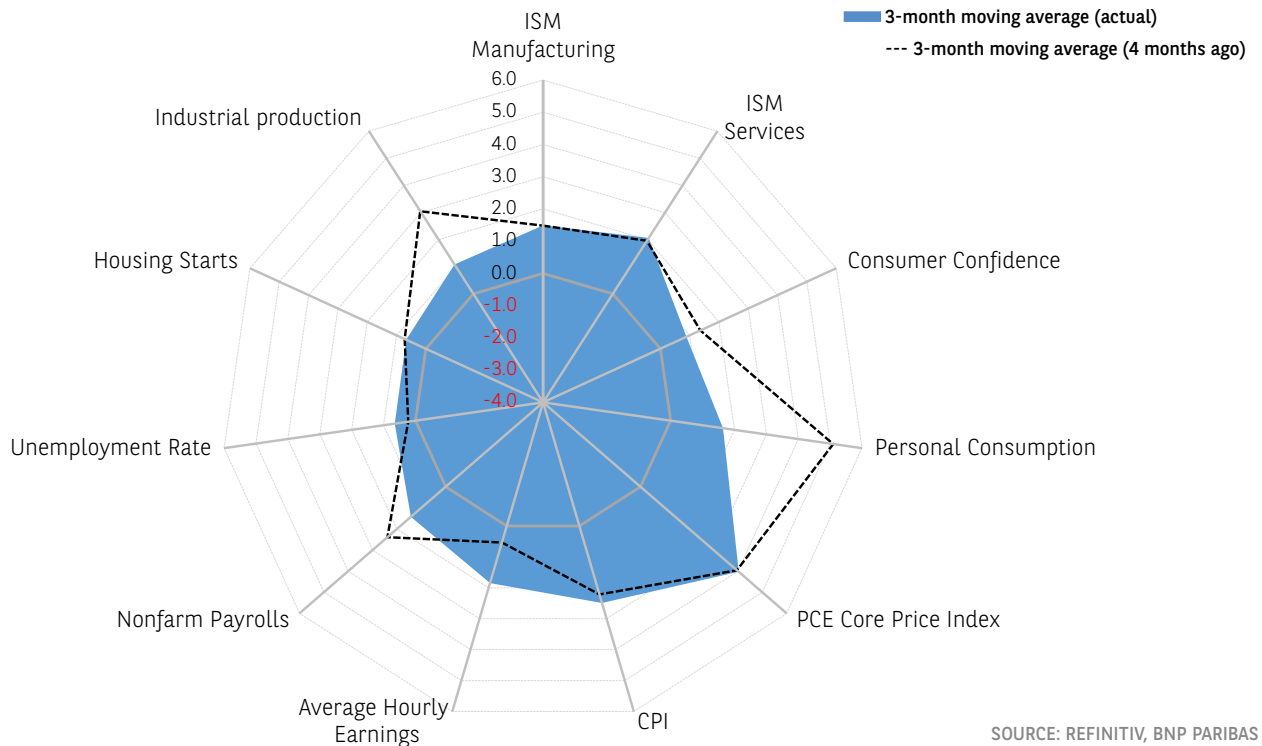
UNITED STATES: INFLATION RISES ABOVE 6%

The “transitory” surge in inflation is proving to be long lasting. In October, US inflation rose to 6.2% year-on-year, the highest level in 31 years. As in previous months, the main explanation is a ballooning energy bill (which accounts for 30% of this figure), but the acceleration in prices is spreading throughout the US economy. It can be seen in the cost of shelter, which is already up 3.5% year-on-year, and is surely bound to accelerate. The surge in house prices (up 20% year-on-year in the 20 biggest metropolitan areas in the US, a record since 2004) has led to the upward revision of leases applied to new renters or “imputed” to homeowners, which the Bureau of Labour Statistics (BLS) integrates only very slowly in the price index (a sixth of the housing stock is revalued every 6 months). Consequently, the feverish real estate market will continue to carry over to inflation, especially since rent is heavily weighted in the price index (33%).

Here the US Federal Reserve has a role to play. Although the Fed’s policy is hardly effective in addressing the global parts shortage or crude oil pricing pressures, it largely shapes trends in the real estate market. Its ultra-accommodating policy stance has already had an unprecedented impact, by driving real mortgage rates into negative territory. At nearly USD 900 bn annually in Q2, the distribution of home loans has exploded and is nearing the record highs of 2006. The time is ripe to normalise monetary policy now that the job market situation is improving (nearly 6 million jobs have been created since the beginning of the year, including 531,000 in October, which lowered the unemployment rate to 4.6%). Initially, normalisation will entail scaling back the Fed’s net securities purchases, which will be gradually reduced from USD 120 bn a month through October 2021 until it eventually approaches zero by June 2022. The Fed’s balance sheet should level off at about USD 9,000 billion, or 40% of GDP.

Jean-Luc Proutat

US QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

The indicators in the radar are all transformed into z-scores (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -4 and +6. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.

