UNITED STATES: INFLATION OFF TRACK

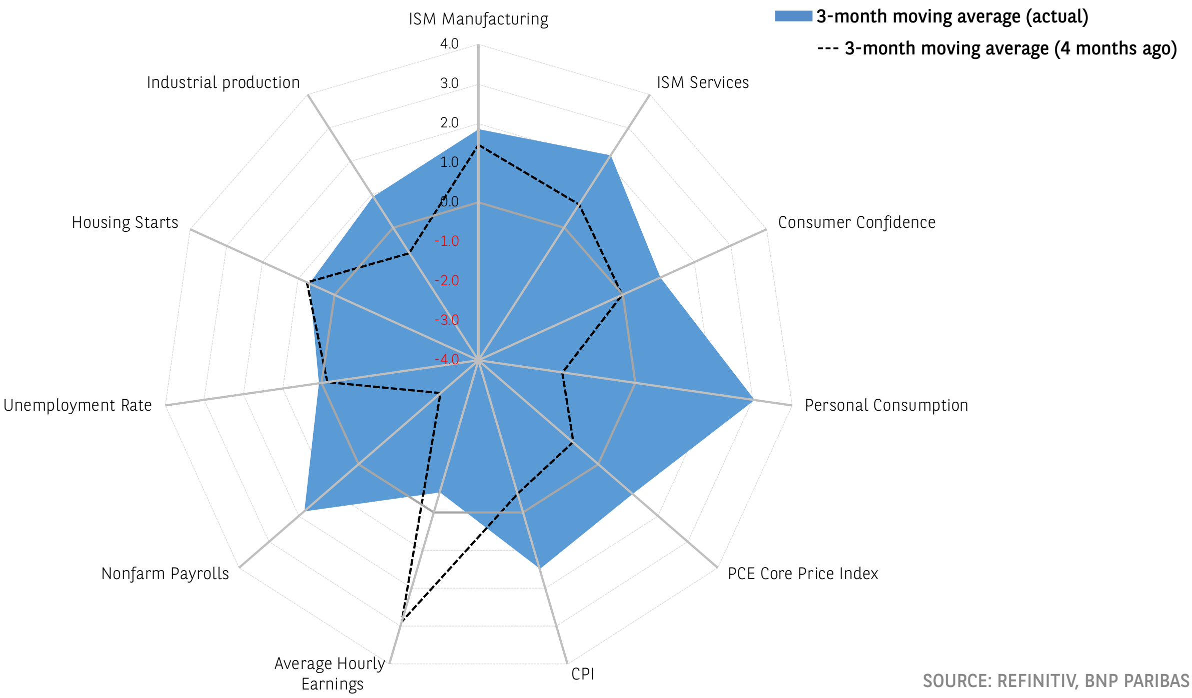
Our barometer this week shows a phenomenon that is attracting increasing comment in the US: a significant rise in inflation as the Covid-19 pandemic recedes. Some people, including the Chair of the Federal Reserve Jerome Powell, are playing down the increase, while others, such as former Treasury Secretary Lawrence Summers and economist Nouriel Roubini, see it as a possible paradigm shift. Annual consumer price inflation hit 5% in May, the highest level for 13 years. Like previous inflation spikes, this one is being driven by higher energy prices (up 28.5% year-on-year), but other factors are also involved. Core inflation (excluding energy and food) was 3.8% in May and is also rising because of demand-side pressures. Savings accumulated in 2020 – partly consisting of forced savings – amounted to almost $3,000 billion, twice the figure for a "normal" year. In 2021, this is driving consumers' appetite for items such as second-hand cars, transport services and clothing.

At this stage, it is hard to see the current rise in inflation as anything other than temporary. "Second-round" effects – in which wages respond to the shock, driving up prices further – are not showing up at the moment. In this area, it is important to look at the right indicator. The average hourly earnings index, which is rebounding sharply, is not entirely relevant because it currently fails to reflect the importance of the low-paid sectors that have been hardest-hit by the pandemic. The employment cost index, meanwhile, is calculated quarterly and is not subject to the same structural bias. Its rate of increase is steady or falling slightly (2.7% year-on-year in the first quarter of 2021 for the wages and salaries component, as opposed to 3.1% in the first quarter of 2020).

Finally, it is worth noting that after an exceptional March, in which public spaces reopened and "Biden cheques" were announced, the buying frenzy among Americans is now calming down. Retail sales fell in April and probably also in May, when the auto market saw a correction. Another sign that things are returning to normal is provided by Google's mobility indicators, which are moving back to their pre-crisis levels. This is particularly the case for data regarding travel to retail areas which, as one might expect, show a close correlation with consumer spending figures.

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 +4. 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.