

# U.S. Growth and Inflation to Revive in Sync

**Underlying inflation pressures remain in a cyclical upswing that we called early last year, while inflation expectations have risen from February's multiyear lows to the highest readings since 2014.**

**Cyclical Sizzle** In relatively short order, both the Trump administration and a more hawkish Fed will need to react to the economic conditions predicted by ECRI — the “[c]oncurrent cyclical upturns in economic growth and inflation [that] are likely to shape the U.S. cyclical landscape in the months ahead.” Already, our prediction that “year-over-year (yoy) CPI inflation, which is ... at a 26-month high, is going to rise further” (*USCO Essentials, December 2016*) is being borne out by a spurt in that metric to a 31-month high.

Six months ago, we flagged a plunge in inflation expectations, which were approaching February's multiyear lows. Regardless, with our U.S. Future Inflation Gauge (USFIG) climbing to an eight-year high, we declared that “inflation is likely to rise further in the next few months. In effect, this is a Baked-Alaska economy, with a chilly core of structural lowflation and a sizzling topping of cyclical inflation” (*USCO Essentials, July 2016*).

The USFIG remains in its cyclical upswing, staying near its recent 8½-year high (Chart 1, upper panel). Following its lead, 5-year inflation expectations have now surged to their highest readings since the summer of 2014 (lower panel, light blue line). In tandem, 10-year inflation expectations have ramped up to their highest readings since the early fall of 2014 (dark blue line).

**President Trump has promised a pace of jobs growth that is quadruple the next eight years' projected labor force growth,**

requiring a return to the demographics of the 1950s, 1960s and 1970s.

Chart 1: Forward-Looking Measures of Inflation

