

Inflation Pressures Turn Up

The Covid crisis has created a drove of dichotomies, including in inflation.

Starting to Simmer Though the recovery from recession is far from complete, U.S. inflation pressures are now in an unambiguous cyclical upswing. That is the clear message from ECRI’s forward-looking indexes of inflation.

In fact, the Weekly U.S. Future Inflation Gauge (USFIG), having turned up from record low readings in early May, has soared to a 22-week high (Chart 1, upper panel). Indeed, its upturn is now “much more pronounced than, while being as pervasive and persistent as, past cyclical upswings in the Weekly USFIG occurring in the vicinity of U.S. business cycle recoveries” ([EWU, September 18, 2020](#)).

Meanwhile, ECRI’s U.S. Alternative Future Inflation Gauge turned up in April, and is also in a clear cyclical upturn (not shown). Further underscored by the monthly version of the USFIG rising for three straight months ([USCO Index Pages, September 2020](#)), there is now ample support for an inflation cycle upturn call.

Considering the Fed’s resolve to maintain a highly accommodative monetary policy stance for years, a key question for investors is the impact on the yield curve of a sustained inflation cycle upswing. After all, the upshot of such a rise in inflation, in conjunction with the economy’s continued recovery, would naturally be a robust cyclical revival in nominal GDP growth.

Indeed, inflation has already started picking up. Not only is year-over-year (yoy) growth in the headline CPI – driven in part by food and energy price inflation – on the rise (not shown), but also yoy core services CPI growth has turned up following the upturn in the USFIG, though dipping in August toward June’s nine-year low (lower panel, black line). More importantly, yoy core goods CPI inflation has turned

The Fed has promised to stay accommodative until inflation flares up *after* maximum employment is achieved, but the rub is what it would do if the sequence is reversed. An inflation cycle upturn can appear to create that dilemma.

Chart 1: Weekly USFIG and CPI Growth by Category (%)

