


Slowly waving farewell to inflation?

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Daily update

- US consumer price inflation requires economists to become second-hand car dealers by proxy—the volatility of used car prices explains a lot of inflation uncertainty. Developed economies have experienced three inflation waves: transitory durable goods price inflation has been deflation since December 2022; energy prices are less disinflationary, but crude prices have moved more than consumer prices; profit-led inflation is under pressure as consumers rebel, but some sectors may still expand margin.
- Importantly, US middle-income home owners experience lower cost of living increases than consumer prices imply. Owners' equivalent rent is a price no one pays. This means homeowners' actual cost of living is significantly lower than reported inflation. Critically, this means their spending power is higher, generating consumer spending resilience. Regional variations also persist—arguably the US has less of an inflation problem, more of a Florida problem.
- The Fed minutes led to markets' data dependence—which is risky because data is not to be trusted in real time, and rogue numbers thus add volatility to policy expectations. We get the ECB account of their last meeting today.
- Japanese producer prices fell more than anticipated in September. UK monthly GDP rose in August, and the Bank of England publish their credit conditions survey (of interest after all the rate hikes).

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