

# Economic Briefing

11 May 2022

## US inflation decline does little to dampen Fed's worries

**US inflation is likely to have peaked. In August, it fell from 8.5% to 8.3%, but less sharply than expected. Inflation is likely to continue to fall, but slower than the Fed would like. The Fed thus remains under pressure.**

### The data

US consumer prices rose by 0.3% in April from March. Excluding energy and food, the so-called core rate was 0.6%. The year-on-year headline rate of the consumer price index fell from 8.5% to 8.3% (Commerzbank forecast 8.2%, consensus 8.1%). The core rate fell from 6.5% to 6.2% (Commerzbank forecast 6.1%, consensus 6.0%) in year-on-year terms.

### Our interpretation

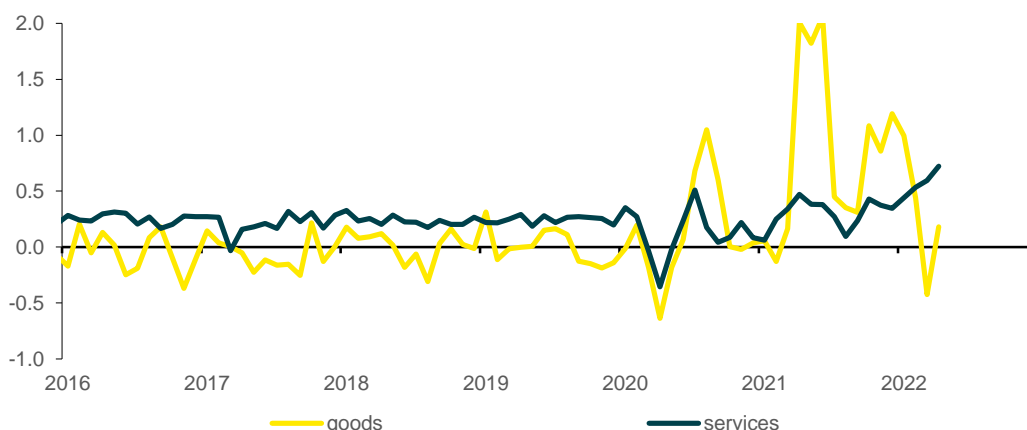
The US inflation rate did fall for the first time since August 2021. But this was only because prices had risen more strongly from March to April last year than this year, and this increase now fell out of the 12-month period.

In fact, prices were raised more than expected this April. This was particularly true for rents and services such as air travel (+18.6% month-on-month) and hotel accommodation (+2.0%). In contrast, used cars, for example, became cheaper again after having been a major inflation driver last year. The shift in demand away from goods, which were in particular demand during the pandemic, toward services, which are benefiting from the reopening of the economy, is thus clearly reflected in prices: In parallel with the slowdown in goods prices, services have recently become more expensive (chart 1).

Provided there is no further energy price shock, the inflation rate should tend to fall further in the coming months. However, the decline should be slow due to persistent inflationary pressures in services. Moreover, inflation is likely to remain higher than before the pandemic as, due to the tight labor market, wage costs are rising more strongly than they have in at least 20 years. In addition, longer-term trends such as deglobalization, the costs of climate policy and demographic change (aging) are increasingly lifting inflation.

### Chart 1 - goods inflation moderates but services inflation accelerates

US CPI excluding energy and food, month-on-month change in %



Source: IHS, Commerzbank Research

### The Fed's worries remain

The real news from today's data is that high inflation appears to become more entrenched. After all, inflation in services continues to pick up. Experience shows that inflation is more inert there. So once it gets going, higher inflation cannot be contained so easily here. Despite the relief in energy prices, the Fed's concerns about future price developments have therefore hardly diminished. Everything therefore points to further significant rate hikes. We expect the Fed to raise rates by 50 basis points

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at each of its next three meetings. By the end of the year, the fed funds target rate (upper bound of corridor) should stand at 3.00%. But even then, it is questionable whether the Fed has done enough to get inflation under control.

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