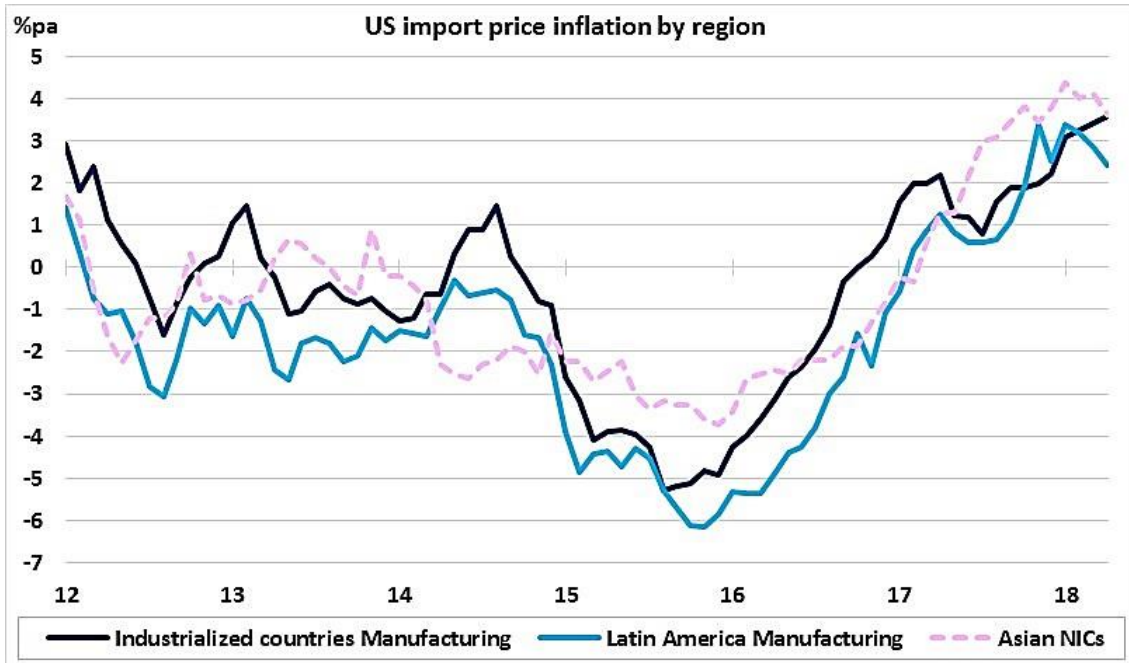




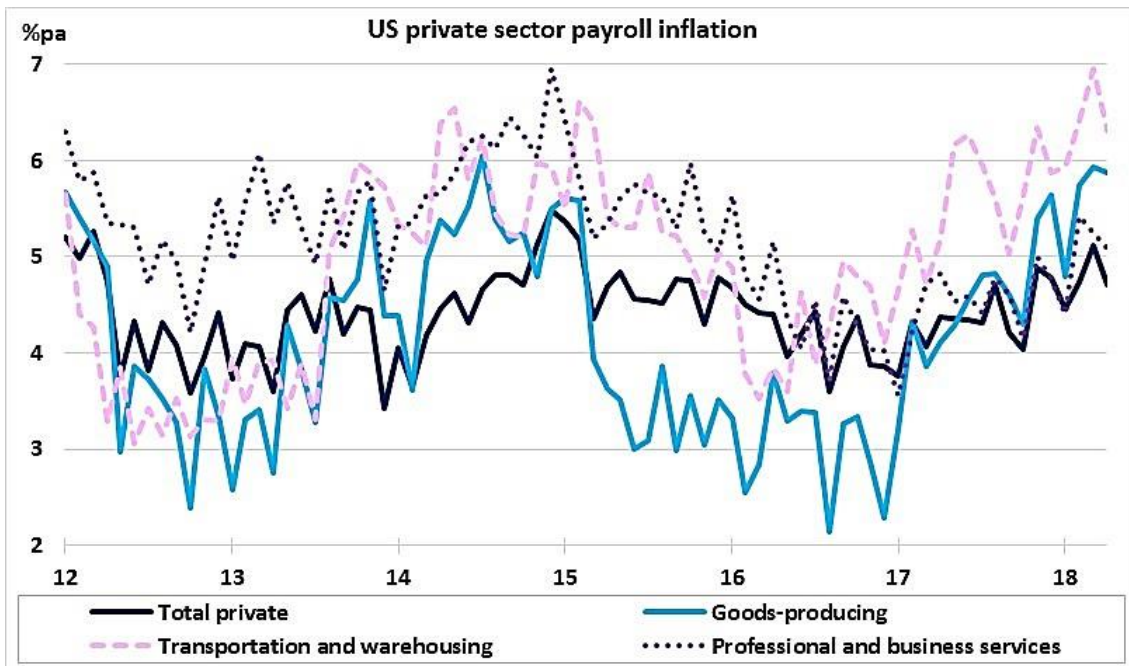
US CPI inflation still has plenty of momentum

At our recent seminar “The Little Inflation with the Big Bite”, we described the global inflationary process as having 5 interwoven strands: supply chain inflation, labour market overheating, fiscal relaxation, industrial commodity inflation and the wild card of food and energy inflation. Here, we examine the strength of these inflationary forces in a US context. Headline US CPI inflation for April has reached an annual rate of 2.5%, with core inflation at 2.1%. Brace for stronger readings in the coming months, pushing towards 3% for the headline rate. Don’t be wrong-footed by inflationary surprises this year.

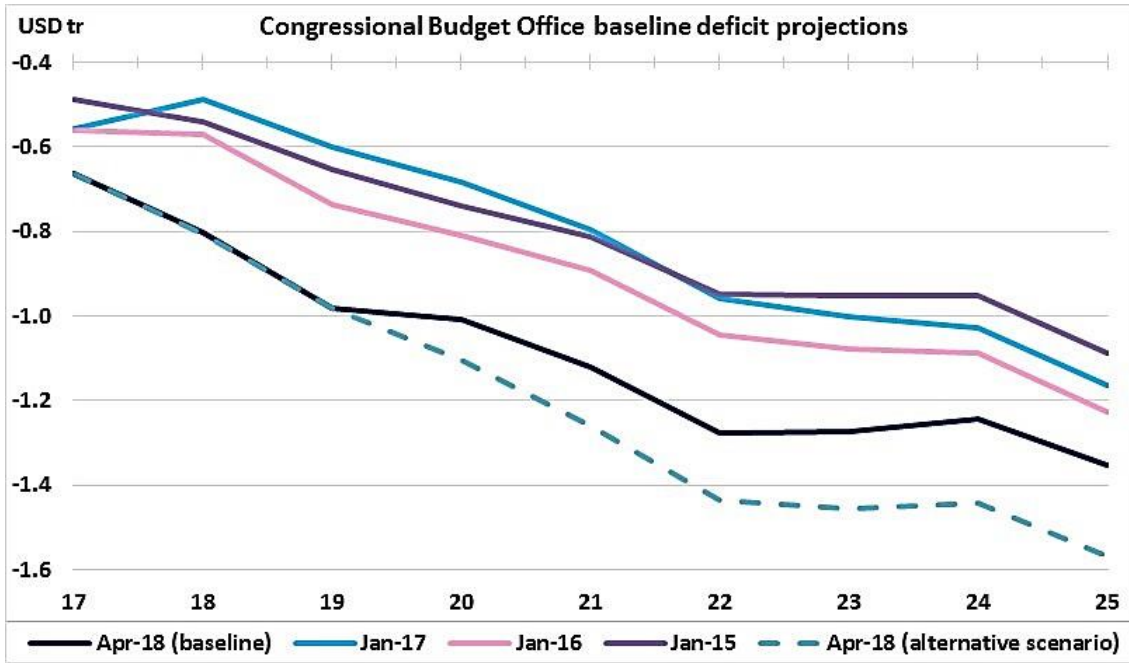
The 5 strands of US inflationary pressure



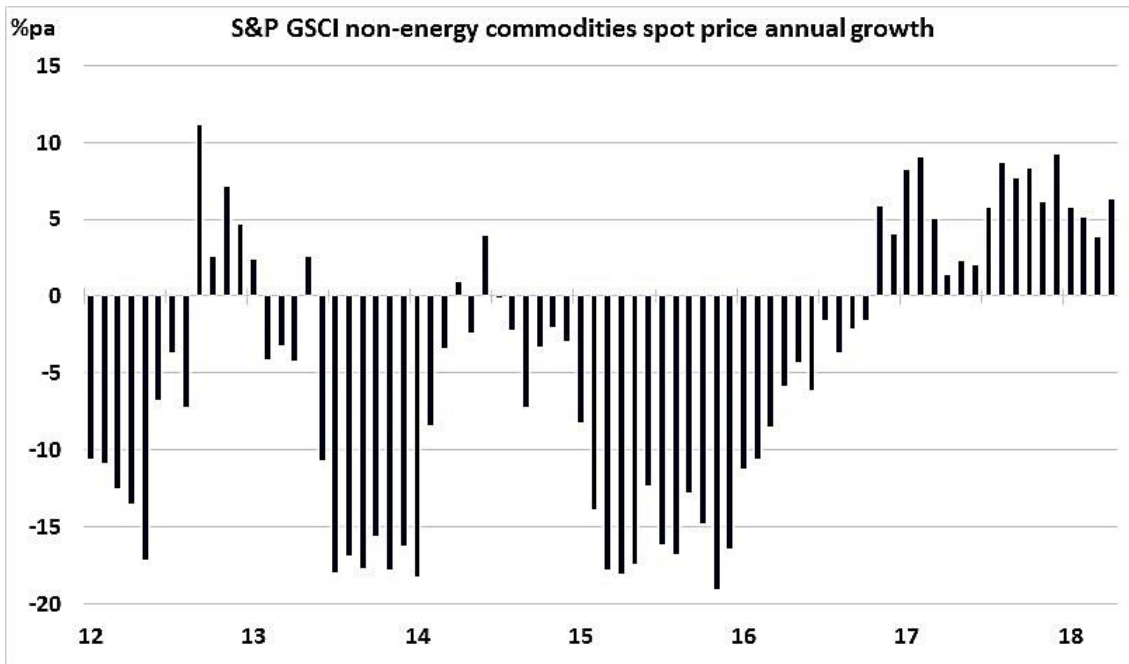
1. Global supply chains for manufactures are shunting faster inflation towards US consumers



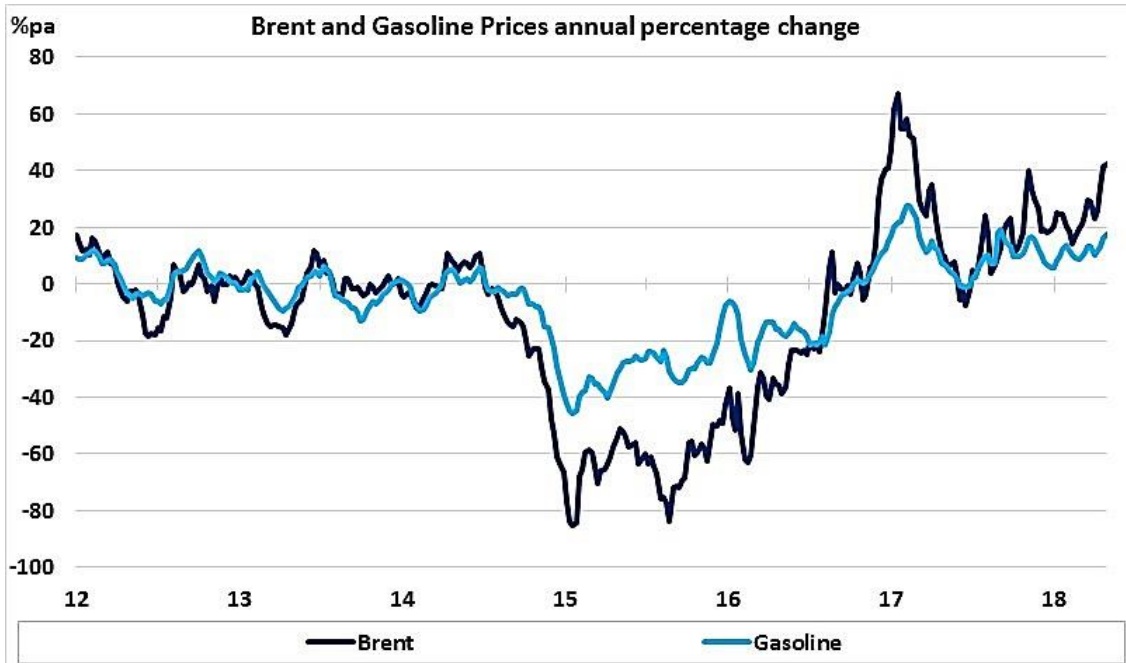
2. Domestic payrolls are surging, buoyed by corporate earnings growth and in the face of labour shortage



3. Fiscal relaxation is stoking tomorrow's inflationary fires



4. Industrial commodity prices are firming in the context of rapid global industrial growth and tight inventories



5. Booming US demand for motor and aviation fuels and petrochemicals has interacted with geopolitical developments to send crude oil and gasoline prices soaring

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