

US Weekly Economic and Strategy Brief



Desk Strategy

November 5, 2021

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Thanks to Deepika Dayal and Garima Ahuja for their contribution to this section.

US Economy Preview

Highlight of the week: In the upcoming holiday-shortened week (Veteran's Day is on Thursday) the main focus will be on inflation, with the CPI and PPI reports. We expect another round of above-trend gains in both the CPI and PPI in October. We look for monthly increase of 0.7% in the headline CPI and 0.4% in the core CPI. Our forecasts would push the year-over-year growth rates to 5.9% for the headline index and 4.3% for the core, versus 5.4% and 4.0% last month. We expect inflation prints to stay firm into the year end, with core CPI ending the year at 4.7%/y/y in December. In the coming days President Biden will likely announce his pick for Fed chair and other Board of Governor positions. The President recently said he has not yet made a decision but that a decision will come "soon".

Key US data & events, week beginning 8 th November, 2021						
	Time	Period	NatWest	Median	Previous	Comments
Tuesday 9 November						
PPI, Final Demand Index, % m/m	08:30	Oct	+0.8	+0.6	+0.5	Energy and trade margins to boost headline
- PPI ex. Food, Energy & Trade, % m/m	08:30	Oct	+0.3		+0.1	Slight rebound in airfares expected
Wednesday 10 November						
Initial Unemployment Claims	08:30	Nov-6	245,000		269,000	Latest four-week moving average: 284,750
CPI, %m/m	08:30	Oct	+0.7	+0.5	+0.4	Firmer energy, moderation in food price gains
- CPI ex. Food & Energy, % m/m	08:30	Oct	+0.4	+0.4	+0.2	
- CPI NSA Index	08:30	Oct				
Wholesale Inventories, % m/m	10:00	Sep		+1.1	+1.1	
Thursday 11 November						
VETERANS DAY: Bond Market Closed						
Friday 12 November						
University of Michigan Sentiment	10:00	Nov prelim		72.0	71.7	

Source: NatWest Markets, Bloomberg

October CPI: Resurgence in energy and core price pressures expected

The CPI likely surged by 0.7% in October after average monthly gains of 0.4% in Q3. We expect energy-price quickened last month, while gains in food prices may have cooled

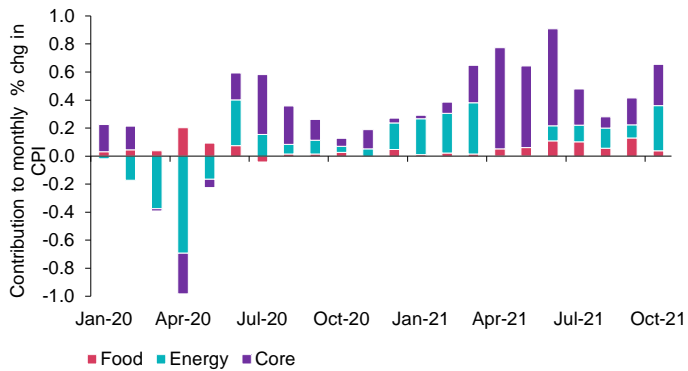
Invitation to Consider a Derivatives Transaction

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somewhat. Away from food and energy, we expect the core CPI firmed (forecast: 0.4% after 0.2% in September). A realisation our forecasts would push the year/year headline inflation rate up from 5.4% in September to 5.9% in October. For the core CPI, we expect the year/year inflation rate to climb to 4.3% in October, after being steady at 4.0%

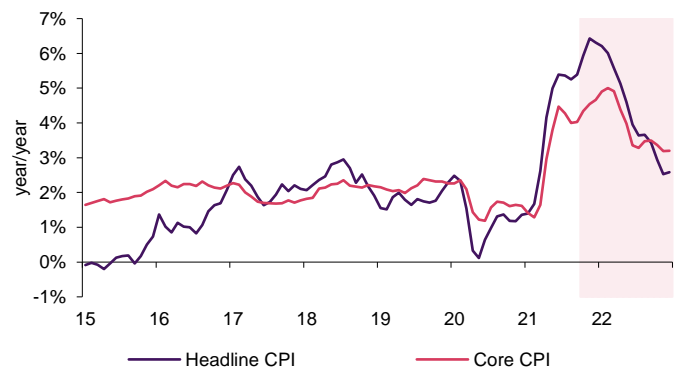
CPI components

Source: Bureau of Labor Statistics and Natwest Markets; Oct-21 shows NWM forecast



Inflation likely to stay elevated through year end

Source: Bureau of Labor Statistics, Natwest Markets; Shaded area shows NWM forecast



in the prior two months. We expect inflation prints to stay firm into the year end, driven by gains in energy prices and firmer core prices.

About half of the forecast gain in the headline CPI in October was driven by a 3.8% monthly jump in energy prices. Prices for most CPI energy components likely firmed. AAA reported that retail gasoline prices surged by 4.1% in October, translating to an estimated 6.4% gain in gasoline in the CPI after seasonal adjustment. Additionally, we forecast a 5.3% monthly increase in prices for piped gas—mostly reflecting recent gains in natural gas prices. Prices for electricity could have also advanced further too.

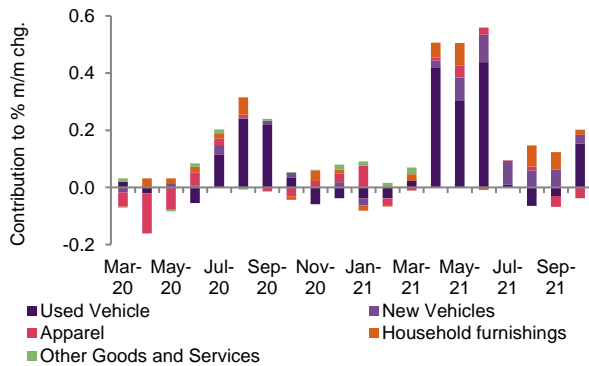
Food prices likely advanced again last month, albeit at a more modest pace of 0.3% after a 0.9% spike in September. We expect the moderation to be broad-based. Gains in food at home prices likely edged up by 0.2% after a 1.2% jump in September, most likely led by a reversal in prices for some meat products (which were up 2.2% in September). The food away from home component likely posted a more trend-like gain of 0.3% in October (reflecting some seasonal slowing) after a 0.5% rise in September. Even with some expected slowing, a realisation of our forecast would still mark the strongest October monthly increase since 2008.

Away from food and energy, the core CPI could have firmed in October after a string of more “tepid” gains in Q3. We forecast an unrounded increase of 0.376% in the core CPI, driven likely by continued strength in core goods and shelter prices. Used car prices have swayed the core CPI metric more than any other component this year. Indeed, after accounting for 50% of the gains in the core CPI in Q2, used car prices were fairly subdued in Q3, contributing very little to change in the core CPI. At the start of Q4, moves in used car prices probably drove the core CPI again. Wholesale used car prices, which lead retail prices by a month or so, started accelerating in September as used car inventories edged down to historical lows. We expect the October CPI report to reflect this upswing in wholesale prices and forecast a 3.7% increase in the CPI for used cars. In addition to used cars, prices for new cars likely stayed strong in October (NWM forecast +0.7%). A dearth of inventories has continued to boost prices for new cars, as supply chain bottlenecks limit production. Outside of vehicles, prices for household furnishings probably stayed solid too following gains of 1.0% in September and 1.3% in August.

On the core services side, rent costs may have propped up the core measure again in October. The rent of primary residence surged by 0.5% in September and the owners' equivalent rent component firmed by 0.4%. While the September gains may have been exacerbated by monthly volatility in some regions (see chart below), the pace of rent growth has picked up in recent months. As the economy has reopened, leasing activity has been trending closer to pre-pandemic levels, especially in areas where rent growth

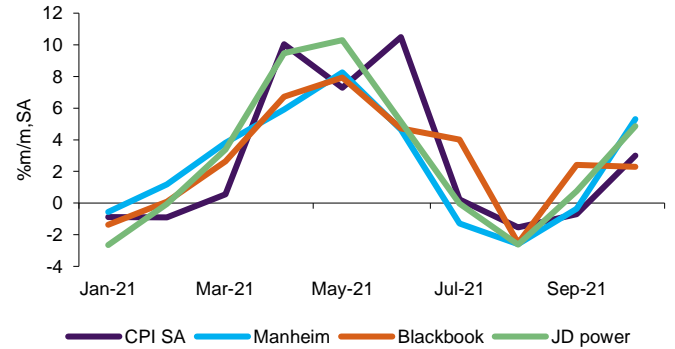
Core goods CPI

Source: BLS and NatWest Markets



Used car prices and whole sale measures (1-month lead)

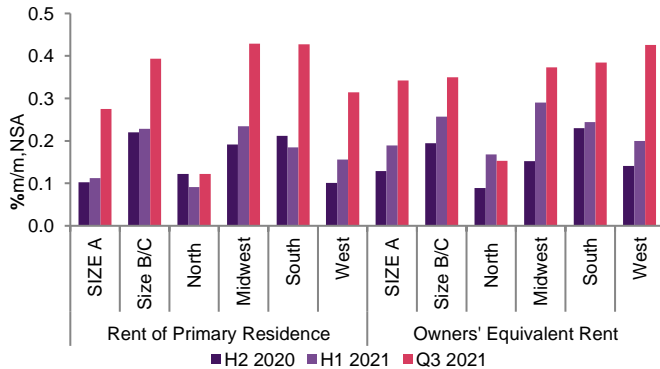
Source: J. D. Power, Manheim Auctions, Black Book, BLS and NatWest Markets; Oct-21 CPI denotes NWM forecast



flattered (typically high rent growth, densely populated regions). Additionally, the recent surge in home prices (once again due to limited inventories) has also prompted increased demand for rentals. Consequently, we expect the rent of primary residence measure posted another firm increase of 0.4% in October, while the OER component increased just shy of 0.4%.

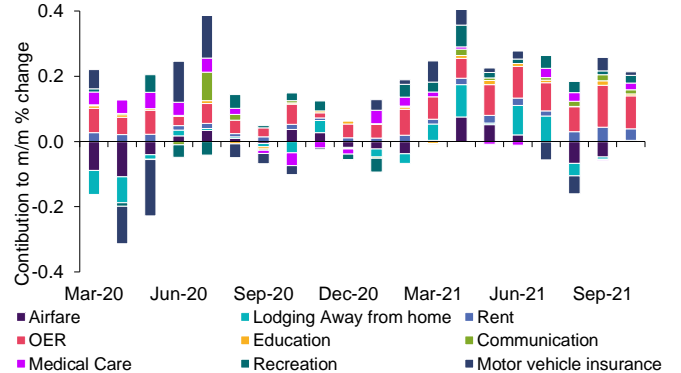
Regional rent growth

Source: BLS and NatWest Markets



Core CPI services

Source: BLS and NatWest Markets



Other component of shelter costs, namely lodging away from home may post a modest uptick of 0.3% in October after back-to-back declines in the previous two months. The softness in August and September reflected a combination of summer discounting and decline in travel-related demand, as the Delta variant spread. Similarly, after collapsing in August and September (cumulative decline of 15.5% in those two months), airfares could have edged up in October, reflecting a seasonal increase in airfares ahead of the holiday season.

Turning to the PPI, pipeline inflation pressures likely stayed firmed in October. We forecast the overall PPI rose by 0.8%. The strength we expect reflects a combination of a 5.5% gain in energy costs and continued strength in trade margins (rose by 1.4% on average in Q3). In contrast, food price gains may have cooled a bit in October, with a small drop. Away from these (volatile) components, we expect the core PPI rose by 0.3%, after a 0.1% increase in September. The September rise was restrained by an 18.3% drop in airfares (shaved off more than two-tenths from the core PPI). We expect a partial rebound in airfares and firmer health care and financial service costs in October. In any case, a realization of our forecasts would nudge the headline PPI up to 8.7% year/year in October (from 8.6% in September) a new all-time high (series dates back to 2010); and the core PPI to 6.1% in October (from 5.9% in September).