



## Iron Harbor Open Market – On Deck

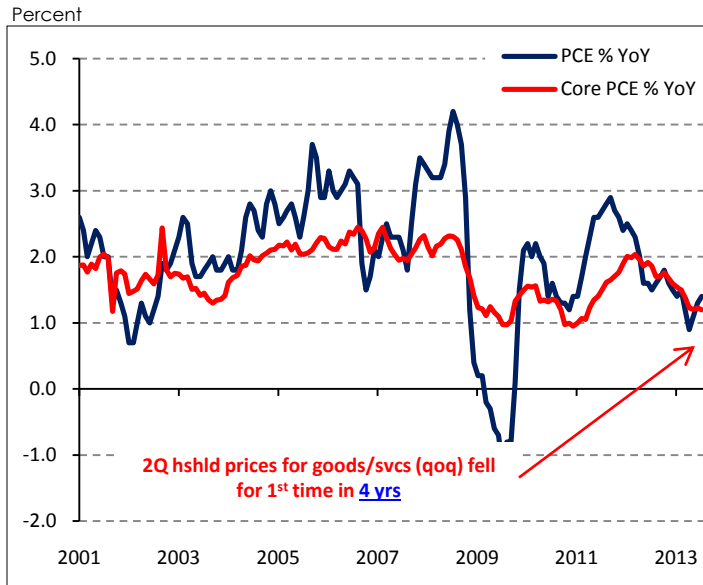
**On Deck – US Inflation** provides a first-draft summary of the recent trend among several leading price indicators...which have trailed mostly lower for the past 12-18 months.

- A closer look at the underlying categories reveals that price pressures will continue to be contained for multiple upcoming quarters.
- Lower trending inflation should be no surprise as it is simply a symptom of the [slow pace](#) at which the economy is moving through the early stages of the business cycle.
- Sustained low inflation in the US (and in many other developed economies) means that monetary policy normalization will most certainly begin later than the market currently anticipates.

*Gravelle Pierre, CFA  
September, 2013*

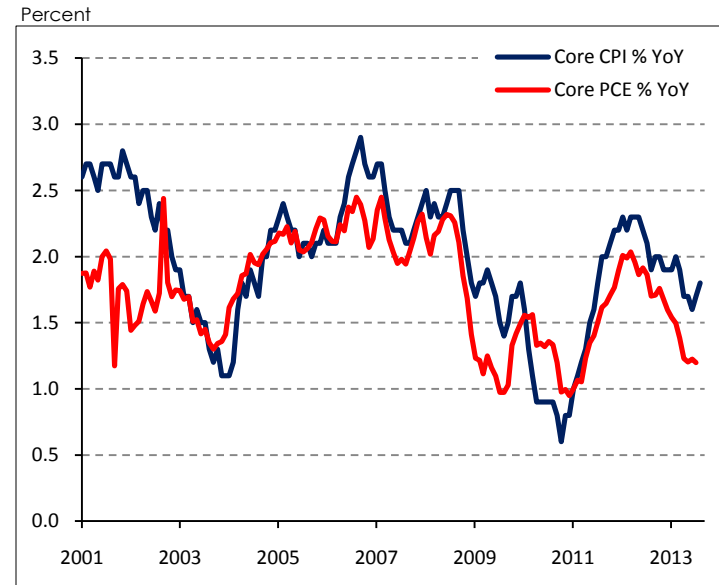
# Figure 1. Down goes inflation

## 1. PCE near post-recession lows



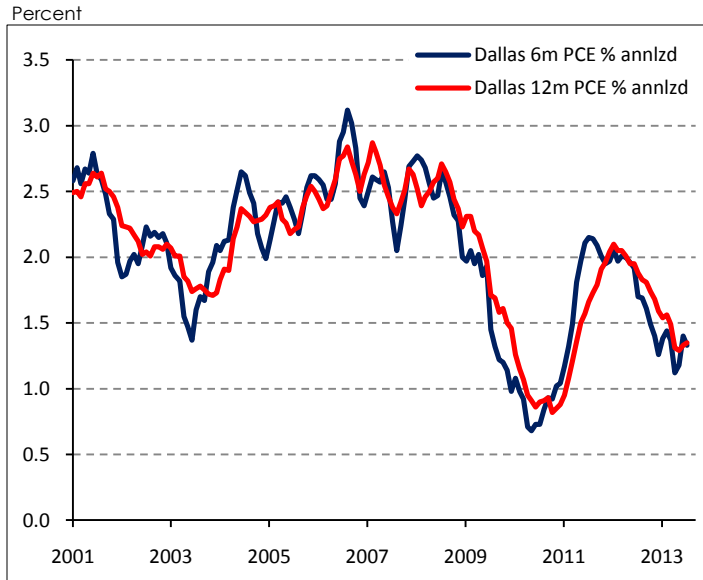
Source: BEA

## 2. Core CPI 'anchored' higher but still below target



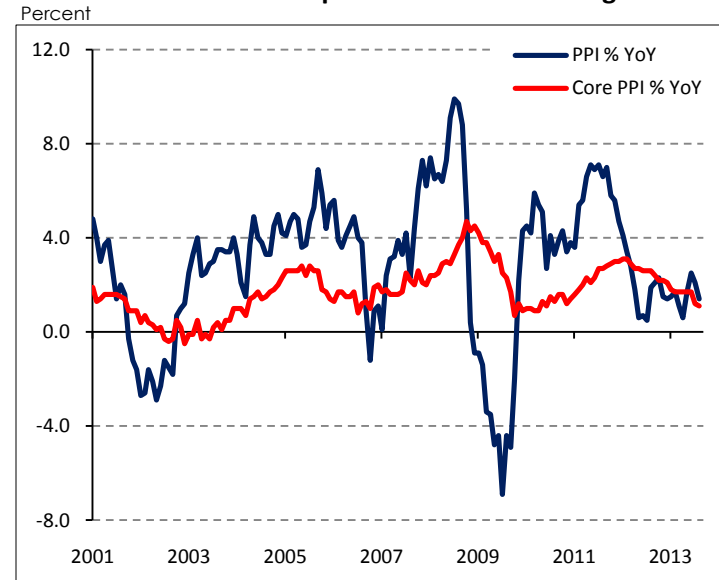
Source: BEA, BLS

## 3. Dallas trimmed confirms direction of headline trend



Source: Dallas FRB

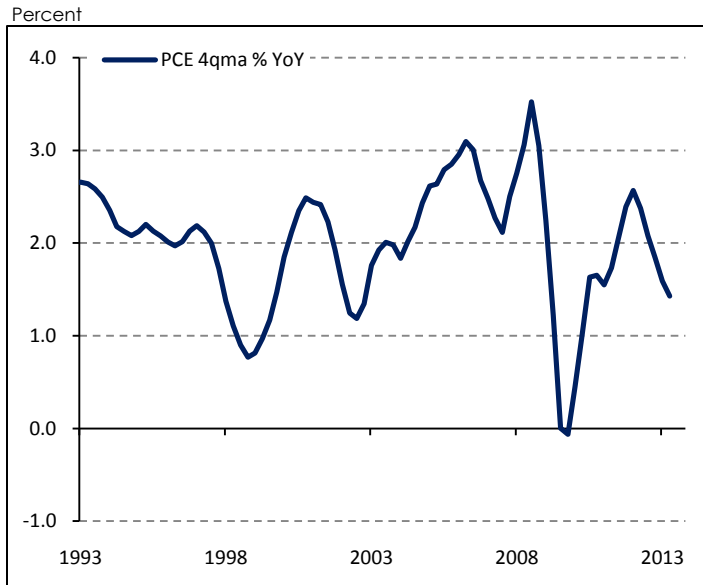
## 4. Producer prices also in lower range



Source: BLS

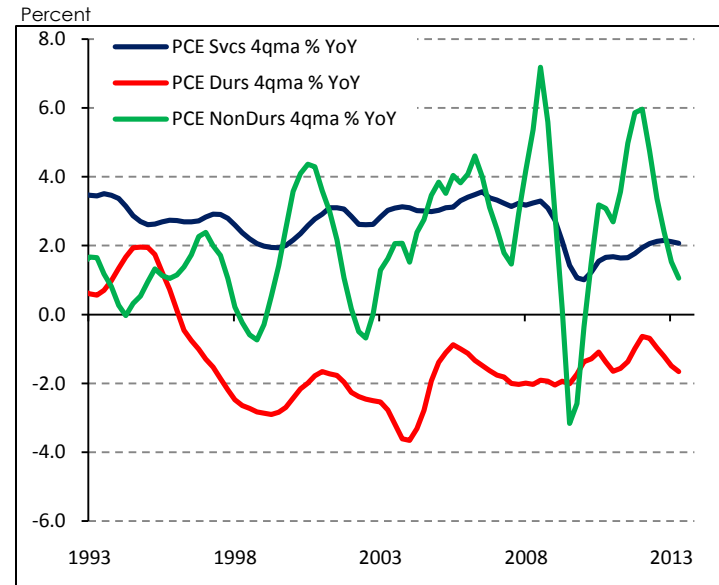
# Figure 2. All PCE components are lower

## 1. Most of the volatility in headline PCE...



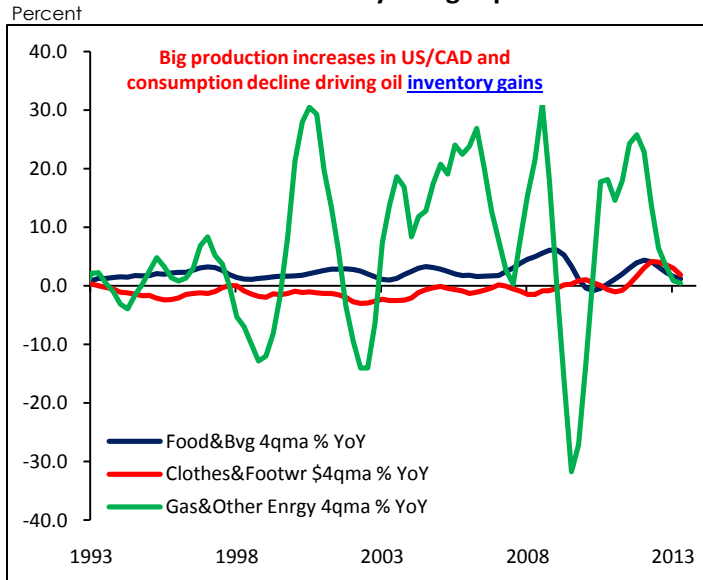
Source: BEA, our calculations

## 2. ...is explained by non-durable goods...



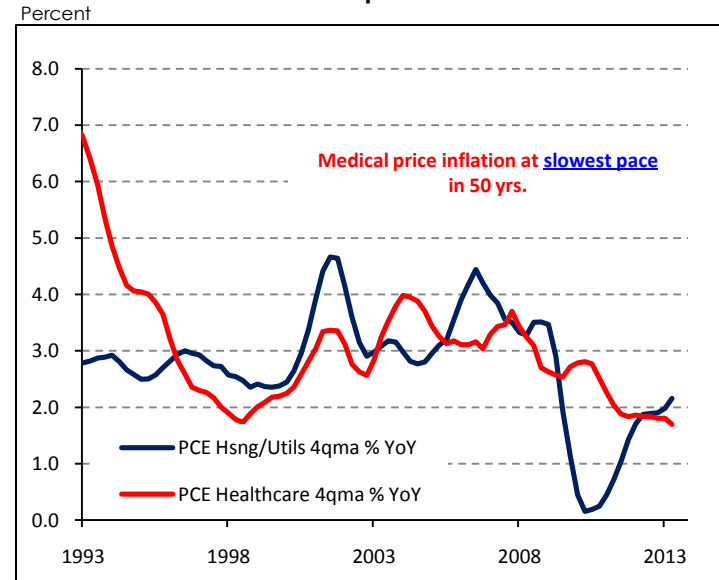
Source: BEA, our calculations

## 3. ...which is driven by oil&gas prices.



Source: BEA, our calculations

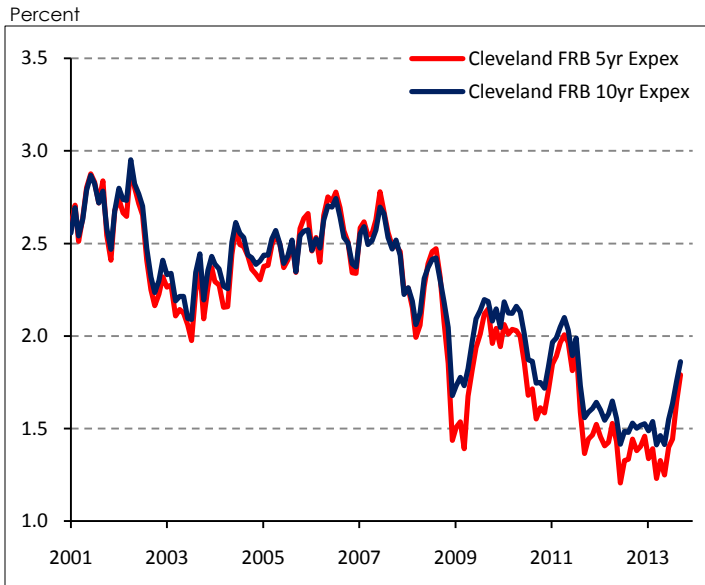
## 4. Weaker services prices also a contributor



Source: BEA, our calculations

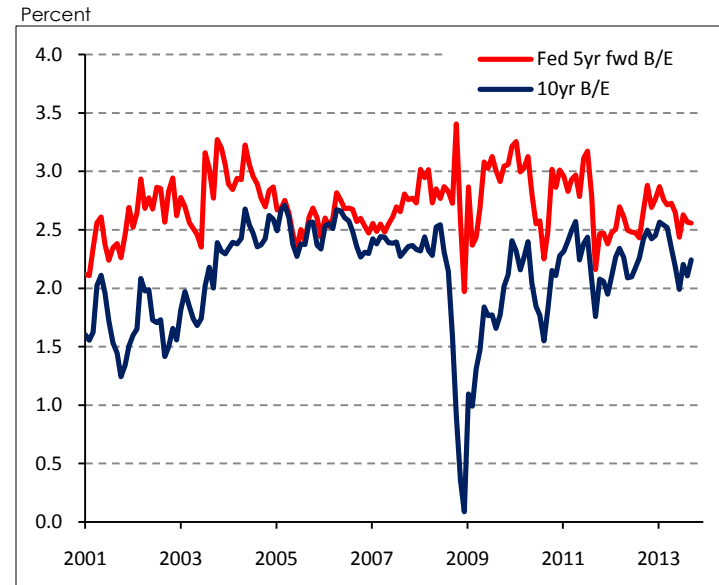
# Figure 3. Expectations mixed but forecasts are lower

## 1. Sharp rebound in Cleveland expectations...



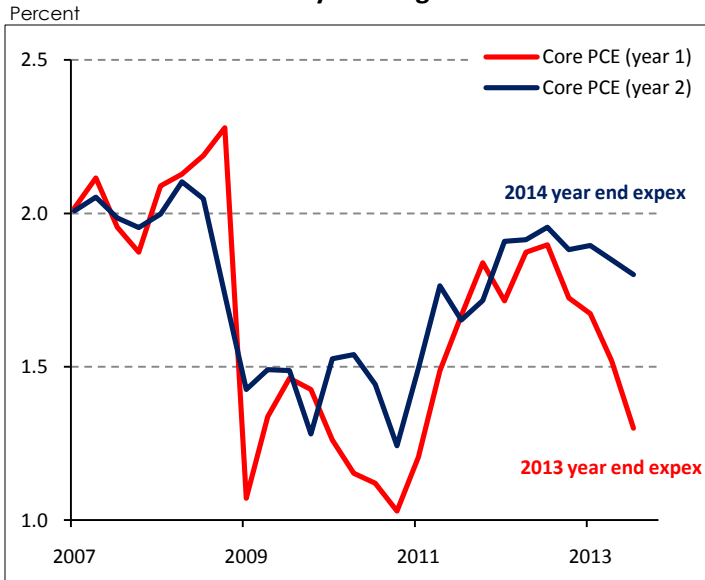
Source: Cleveland FRB

## 2. ...while key breakevens remain contained.



Source: Bloomberg

## 3. Economist busy revising forecasts lower...



Source: Philadelphia FRB

## 4. ...in lockstep with the Fed.

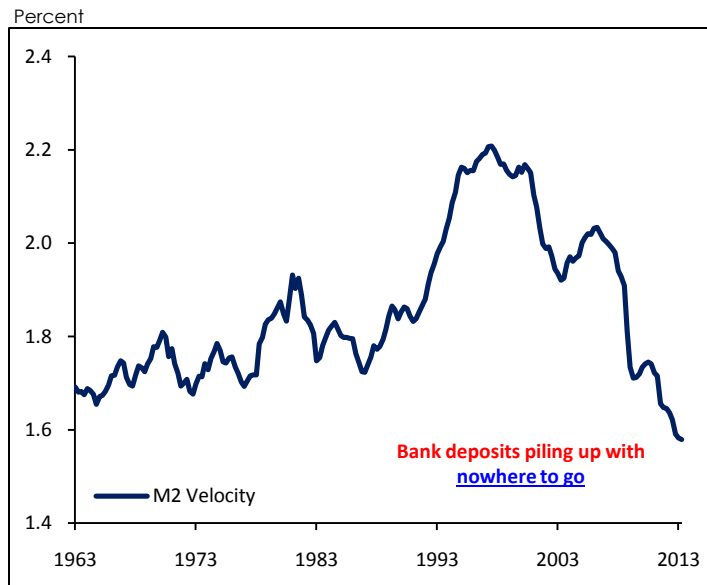
	Central Tendency			Range		
	2013	2014	2015	2013	2014	2015
<b>PCE</b>						
Sep '13	1.1 - 1.2	1.3 - 1.8	1.6 - 2.0	1.0 - 1.3	1.2 - 2.0	1.4 - 2.3
Jun '13	0.8 - 1.2	1.4 - 2.0	1.6 - 2.0	0.8 - 1.5	1.4 - 2.0	1.6 - 2.3
Mar '13	1.3 - 1.7	1.5 - 2.0	1.7 - 2.0	1.3 - 2.0	1.4 - 2.1	1.6 - 2.6
Dec '12	1.3 - 2.0	1.5 - 2.0	1.7 - 2.0	1.3 - 2.0	1.4 - 2.2	1.5 - 2.2
Sep '12	1.6 - 2.0	1.6 - 2.0	1.8 - 2.0	1.5 - 2.1	1.6 - 2.2	1.8 - 2.3
Jun '12	1.5 - 2.0	1.5 - 2.0	n/a	1.5 - 2.1	1.5 - 2.2	n/a
Apr '12	1.6 - 2.0	1.7 - 2.0	n/a	1.5 - 2.1	1.5 - 2.2	n/a
Jan '12	1.4 - 2.0	1.6 - 2.0	n/a	1.4 - 2.3	1.5 - 2.1	n/a
<b>Core PCE</b>						
Sep '13	1.2 - 1.3	1.5 - 1.7	1.7 - 2.0	1.2 - 1.4	1.4 - 2.0	1.6 - 2.3
Jun '13	1.2 - 1.3	1.5 - 1.8	1.7 - 2.0	1.1 - 1.5	1.5 - 2.0	1.7 - 2.3
Mar '13	1.5 - 1.6	1.7 - 2.0	1.8 - 2.1	1.5 - 2.0	1.5 - 2.1	1.7 - 2.6
Dec '12	1.6 - 1.9	1.6 - 2.0	1.8 - 2.0	1.5 - 2.0	1.5 - 2.0	1.7 - 2.2

Lower....lower  
...lower

Source: Fed

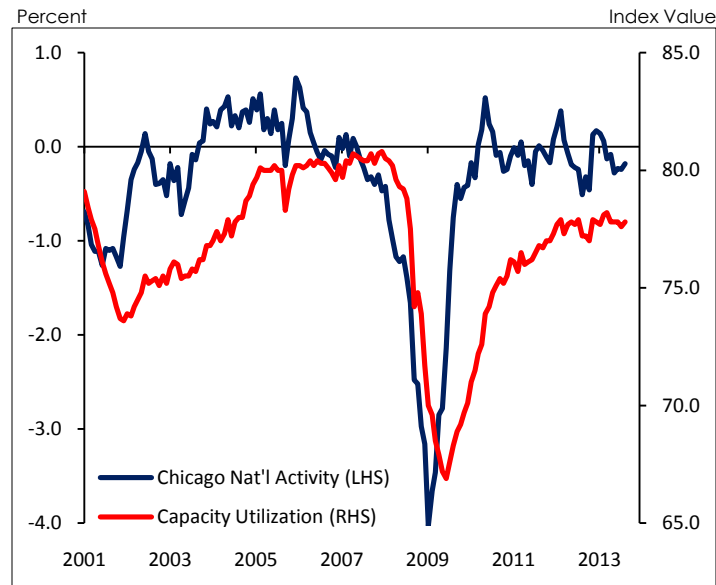
# Figure 4. Low inflation is a symptom of a struggling economy

## 1. Lower inflation a symptom of velocity collapse...



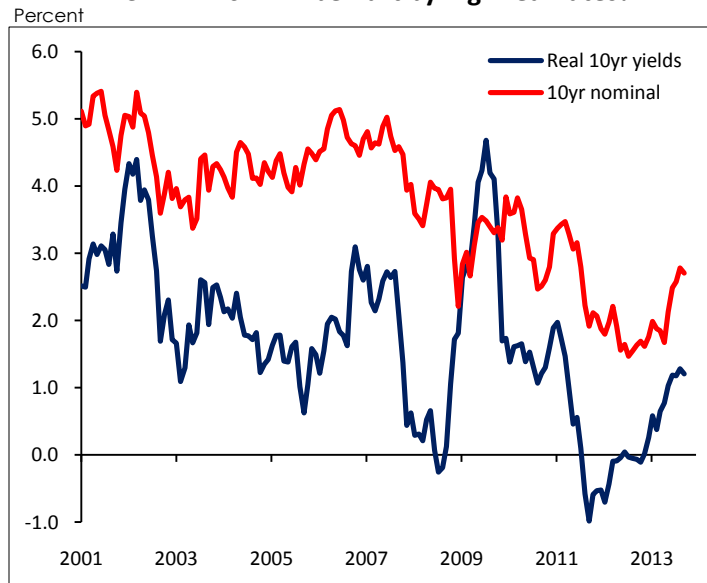
Source: Fed

## 2. ...and tepid activity/output gaps...



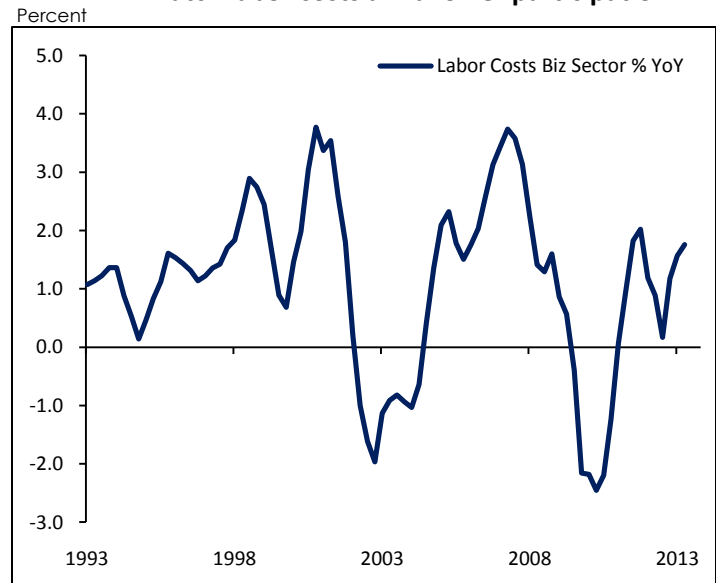
Source: Fed, Chicago FRB

## 3. ...which will be hurt by high real rates!



Source: Bloomberg

## 4. Watch labor costs amid lower participation



Source: BLS