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Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.

Global Risk Watch Newsletter

Jittery Emerging Economies Await a Season of Politics, etc.

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《index》

1. # Jittery Emerging Economies Await a Season of Politics (Tsuyoshi Oyama)
 2. # Review of the Fundamental Review (Shiro Katsufuji)
 3. # US Core CPI Growth Rate the Highest in A Year (Toshikazu Kumagai)
 4. Seminars, Conferences & Publications
- =====

3. Highlight of Indicator for this Month (Trends & Topics)

US Core CPI Growth Rate the Highest in A Year (Toshikazu Kumagai, Manager, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

While the trade friction between the US and China as well as development in the Middle East have drawn a lot of attention, this month I want to take a closer look that the US inflation rate.

In March, the growth rate for consumer prices grew +2.4% MoM. The Core CPI (which excludes food and energy costs) also grew to +2.1% YoY – the first time this has broken the 2% barrier in a full year (Figure 1). It looks like current stable growth will continue in spite of the somewhat mixed economic indicators for the US market.

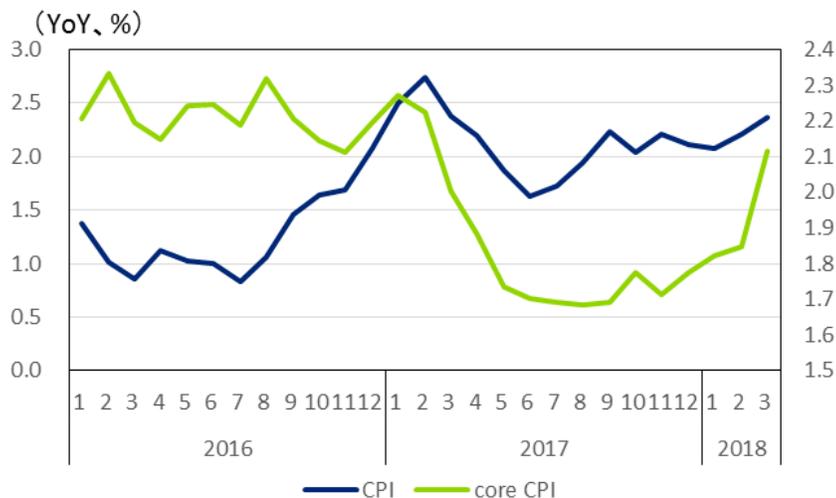
Personal consumption remains high, and as people buy more goods and services the prices for said goods and services can be expected to rise. 2017 proved something of a mystery – it was unclear why the core CPI growth rate stagnated in such a robust economy. The FRB supposed that the reason for the stagnating CPI was in fact the recent introduction of low cost cellular plans and was therefore not a sign of prices falling more generally.

Let's break down recent changes in prices by the composite goods and services (Figure 2), this way we will be able to see what effect the shift in prices over the last years has had on the core CPI. The first thing that stands out is how the drop in "Education and communication services" pushed down the core CPI in March 2017, but is now pushing it up in March 2018. This is because in the year since their introduction, the above mentioned cellular phone plans have less of an effect. Other areas where prices have risen from last year include housing owner's equivalent rent as a part of "shelter," dental and eye care as a part of "medical care services," as well as used cars and trucks as a part of "transportation commodities." Most of these categories held back the CPI growth rate in the

first half of last year. While it may still be too early to judge, looking at this month's numbers we could be seeing signs of this trend reversing.

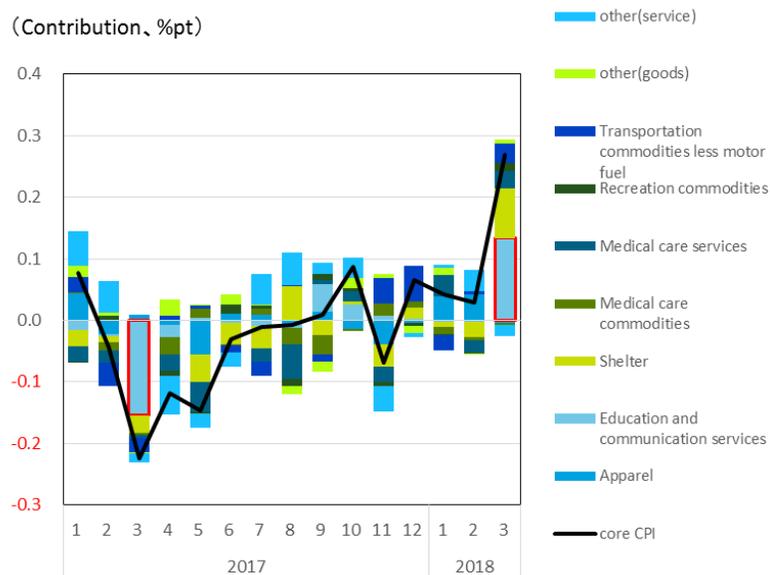
There is certainly a lot of attention being paid to the current risk-off. However, it is worth keeping in mind that should we successfully jump this hurdle, the risk still remains that inflation will pick up and drive up long-term interest rates.

Figure 1: US Consumer Price Index Trend



Source: US Department of Labor, DTT Analysis

Figure 2: Changes in the Core CPI



Source: US Department of Labor, DTT Analysis

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