Friday, May 11, 2018

Inflation…Where Did it Go?

Inflation fear is off the table, at least for this week. Both wholesale and consumer prices rose less than expected in April. In both cases, specific products had significant declines that brought the indices lower. For instance, wholesale food prices declined the most since 2016. On the consumer side, used car prices fell 1.6 percent, the largest drop in nine years, and airfares posted the biggest drop in four years. Yet, even without these one-offs, core inflation levels remain muted and have lost some of the sting of previous readings. Core PPI fell to 2.3 percent on a year-over-year measure from 2.7 percent. Core consumer prices remained at 2.1 percent. Higher corporate profits and the stronger dollar are enabling companies to refrain from passing on rising transportation and material costs to consumers. Strong price transparency or, rather, the Amazon effect, is also holding prices down at the consumer level.

Other Key Indicators this Week:

Consumer Credit **–** Consumers borrowed at a slower pace in March. Total credit increased $11.6 billion, 14 percent less than in February. Much of that weakness came from a $2.6 billion decline in credit card debt, the largest drop since December 2016. Credit card borrowing fell 0.9 percent in the first quarter, versus a 10.3 percent rise during the last three months of 2017. This data supports the significant drop in consumer spending at the beginning of 2018. Non-revolving debt increased $14.2 billion for the second month, mostly a result of better auto sales. Auto loans increased $9.1 billion in the first quarter.

JOLTS – As of the end of March, there was a job opening for every unemployed person in the U.S. This compares to about one job for every two people in 2007. The number of job openings increased to a record 6.6 million. The relationship between job openings and unemployment is known as the Beveridge curve: the more openings mean lower unemployment. This relationship is finally beginning to pan out with the drop in the unemployment rate to 3.9 percent last month. The quits rate, a measure of people’s willingness to voluntarily leave their job, rose to 2.3 percent. Increases in the quits rate are considered a sign of a strong labor market and potentially higher wages.

Oil **–** Oil was front and center this week, as the price of crude reached the highest price since 2014. Crude oil prices have been slowly moving higher, rising 14 percent since President Trump began talking about exiting the Iran nuclear deal last month. The announcement this week to formally leave the pact sparked concerns about the flow of oil supplies and how the sanctions will impact U.S. companies doing business in Tehran. Average gasoline prices are already up 20 percent from a year ago and are expected to rise more.

Strategically for Credit Unions:

Loan demand continues to grow at credit unions, as do investment yields. With yields at the short end of the curve rising faster than yields on the longer end, credit unions need to pay extra attention to their loan rates. Two-year agency bullet notes are averaging 2.55 percent risk-free returns. While it may be tempting to keep auto loan rates low to attract more business, the potential risk added to the balance sheet may not be worth it. Now is the time to look at raising rates, especially if delinquencies begin to rise.

Sarina Freedland – Senior Investment Officer

800.301.6196 | www.catalyststrategic.org | css@catalystcorp.org