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FUSCO FINANCIAL ASSOCIATES

Market Commentary

To Our Valued Clients,

The recent data from the Consumer Price Index (CPI) has sparked much debate around the current state of inflation in the United States. From April through June of this year we experienced month-over-month increases in the CPI of 0.77%, 0.64%, and 0.90%, respectively. While, to some, these numbers may sound trivial, the 0.90% increase we saw in June was the largest jump since June of 2008 (1.05%). Even more polarizing have been the year-over-year increases; from April through June of this year we saw increases of 4.15%, 4.93%, and 5.32%, respectively.

The question is not whether inflation is here, but rather for how long? To answer this we need to look beyond the headline numbers and locate the root causes. Sifting through the data, a few key factors can be found that are leading to the acceleration in prices. For starters, disruptions in the global supply chain (Suez Canal, Colonial Pipeline, Texas Deep Freeze, etc.) have caused sudden short-term supply constraints across industries. A tight labor market has forced employers to increase wages in an effort to entice people back into work, and in many cases this extra cost has trickled down to the consumer. And finally, we are in the midst of a global semiconductor shortage. These little computer chips are found in everything from cars to coffee makers. Each of these factors have coincided with a sharp rebound in consumer demand as much of the country has re-opened for business, culminating in a low supply, high demand environment which is the precise recipe for price increases.

The automotive and travel industries have experienced some of the largest increases in price levels. Car manufacturers have been forced to slash new vehicle production amid the semiconductor shortage, resulting in a staggering 45.2% increase in used car prices over the past 12-months[1]. Airfares have increased 24.6% over the past 12-months[2] as demand has soared and airlines have struggled to get their flights fully staffed. These sectors have contributed to well over one-third of headline inflation this year, and taking out used vehicles alone reduces June's year-over-year CPI to 3.55% from 5.32%[3].

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[1] Bureau of Labor Statistics
[2] CNN
[3] Bureau of Labor Statistics

In short, headline inflation figures are being heavily influenced by a small handful of sectors. As the impacts of the supply chain disruptions dissipate and unemployment continues to improve, the Federal Reserve's view that this bout of inflation is transitory should be fulfilled. It's also important to remember that moderate levels of inflation are a sign of a healthy and growing economy, and the majority of developed nations target an annual increase in price levels of around 2%. For our readers that remember what it was like, we are a far cry from the levels experienced in the 1950's, 1970's, and 1980's.

With My Best Regards,

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