Macroeconomic review: future inflation in the U.S.

U.S. Inflation is accelerating. It reached ***2.6% (YoY) in March, a record high since 2018.*** *This is well above FRS inflation target of* ***2%.*** *Moreover, U.S. inflation is going to grow further. Let's figure out how high the risk for stock market is, and what possible safeguards from losses could be.*

U.S. Inflation rate, % (YoY)

Source: U.S. Bureau of Labor Statistics

Reasons for growing infla on:

1. In March last year, prices plunged with onset of the crisis, so considerable year-on-year infla on is mostly due to **low base effect.** It is going to intensify in April and May, infla on having poten al to exceed **4% (YoY).**
2. **Price increment "month-on-month" was 0.6% (MoM) in March over 0.4% (MoM) in February.** No low base e ect in this case. Prices go up due to sharp recovery of the U.S. economy: demand grows ahead of supply pu ng pressure on prices.

U.S. inflation will most probably continue to grow for the following reasons:

First, prices paid to producers (costs of wholesale purchases from manufacturers) increased in March. This will probably have domino e ect on consumer goods.

Price movement, % (MoM)

Consumer prices Producer prices

Source: U.S. Bureau of Labor Statistics

Second, FRS using the prin ng press led to over **25% (YoY)** increase in U.S. monetary stock — the highest level on record (i.e. since 1981). Previous record high levels: **12% (YoY) in 2001** and **10% (YoY) in 2009.**

U.S. monetary stock movements on record, % (YoY)

Source: Board of Governors of the Federal Reserve System (US)

Third, Trump's $2 trillion and $0.9 trillion relief packages, followed by Biden's $2.2 trillion package and poten al future packages, provide lots of benefi s to Americans. However, they currently tend to set money aside. In the midst of the coronavirus pandemic, Americans laid away record-making 34% of their income, and they s ll set aside 14% (as of February), which is twice their pre-crisis savings. People will start spending saved-up money as U.S. economy recovers, and this will put more upward pressure on prices in the U.S.

Inflation will definitely grow, but yet this is far from sure to cause problems. Already today, investors expect U.S. prices to grow above the target level, since UST10 yield already considers infl on at more than **2.3% (YoY)** (see the graph), and the market is calm thus far.

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