

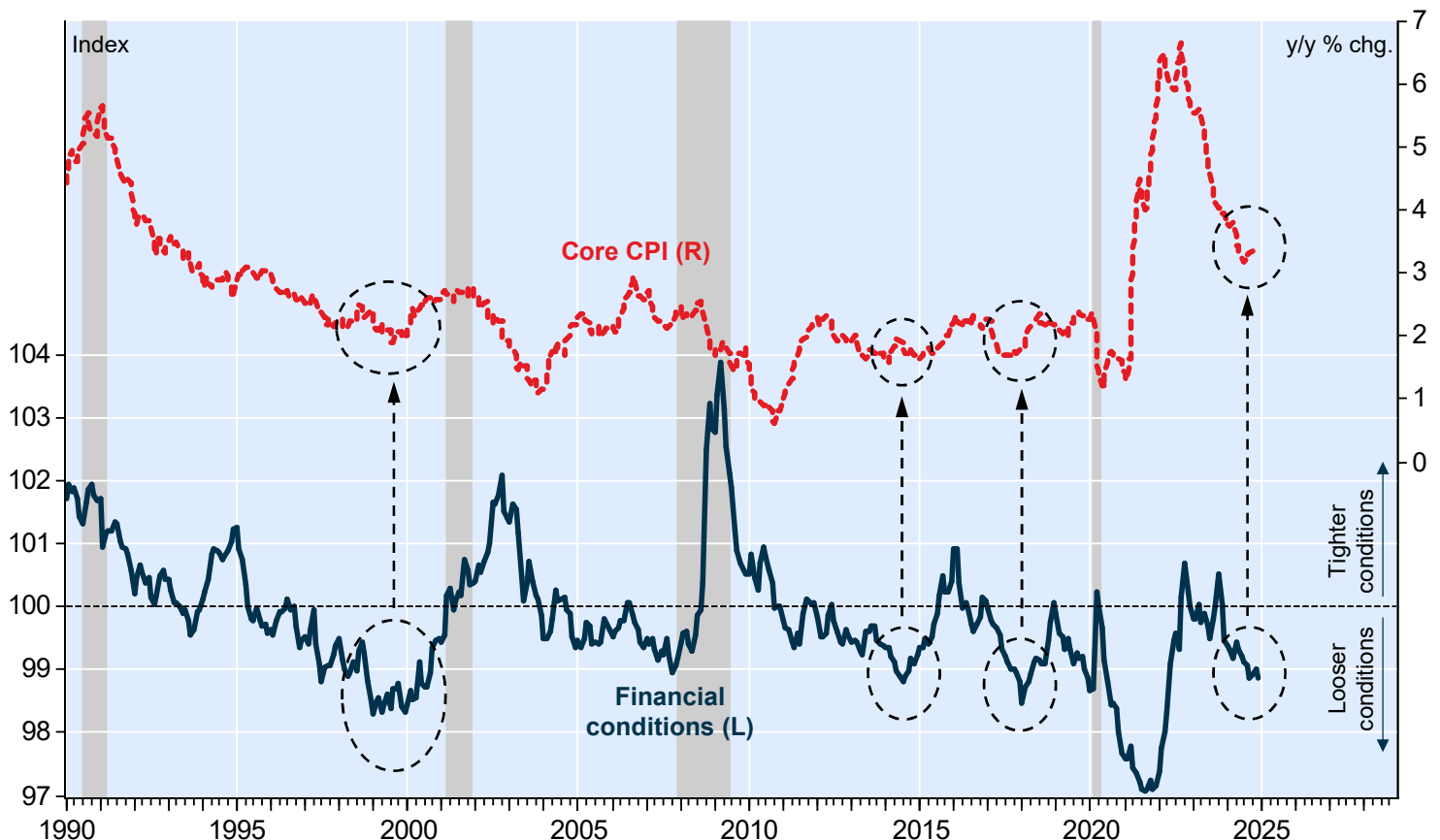
U.S. Watch

By Jocelyn Paquet

Although November's CPI report came in line with consensus expectations this week, it still contributed to lowering our level of confidence that inflation in the U.S. will return to its target on a sustainable basis. This is partly due to the fact that a number of components which had contributed greatly to disinflation in recent months now appear to be regaining strength, most notably food and new/used vehicles. More generally, it was the resurgence in the core goods category that did most to fuel our doubts, as prices in this segment rose by the most in 18 months in November. If this rebound were to be confirmed in the coming months - and the tariffs proposed by the new Trump administration could certainly add fuel to the fire on this front - it would make the Fed's task more complicated, especially in a context where inflationary pressures in the services segment remain strong. The central bank also faces another challenge in its battle to bring inflation back to target: overly-loose financial conditions that reflect elevated equity valuations and compressed credit spreads. While positive for growth, such loose financial conditions also generally translate into increased price pressures, as today's Hot Chart shows. Excluding the post-pandemic period, core inflation has indeed risen by 0.6% on average the last few times the Goldman Sachs Financial Conditions Index has been as low as it is today (1998M11-2000M05, 2014M06-2014M09 and 2017M11-2018M03). This may have been desirable at the time, as inflation was below or very close to target. But the same cannot be said today, with core inflation still some ways above 2%. In such a context, a rapid return of inflation to target appears optimistic, unless the economy or financial markets underperform.

U.S.: Loose financial conditions won't help to bring inflation back to 2%

Goldman Sachs Financial Conditions Index for the U.S. vs. Consumer Price Index excluding food and energy



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