



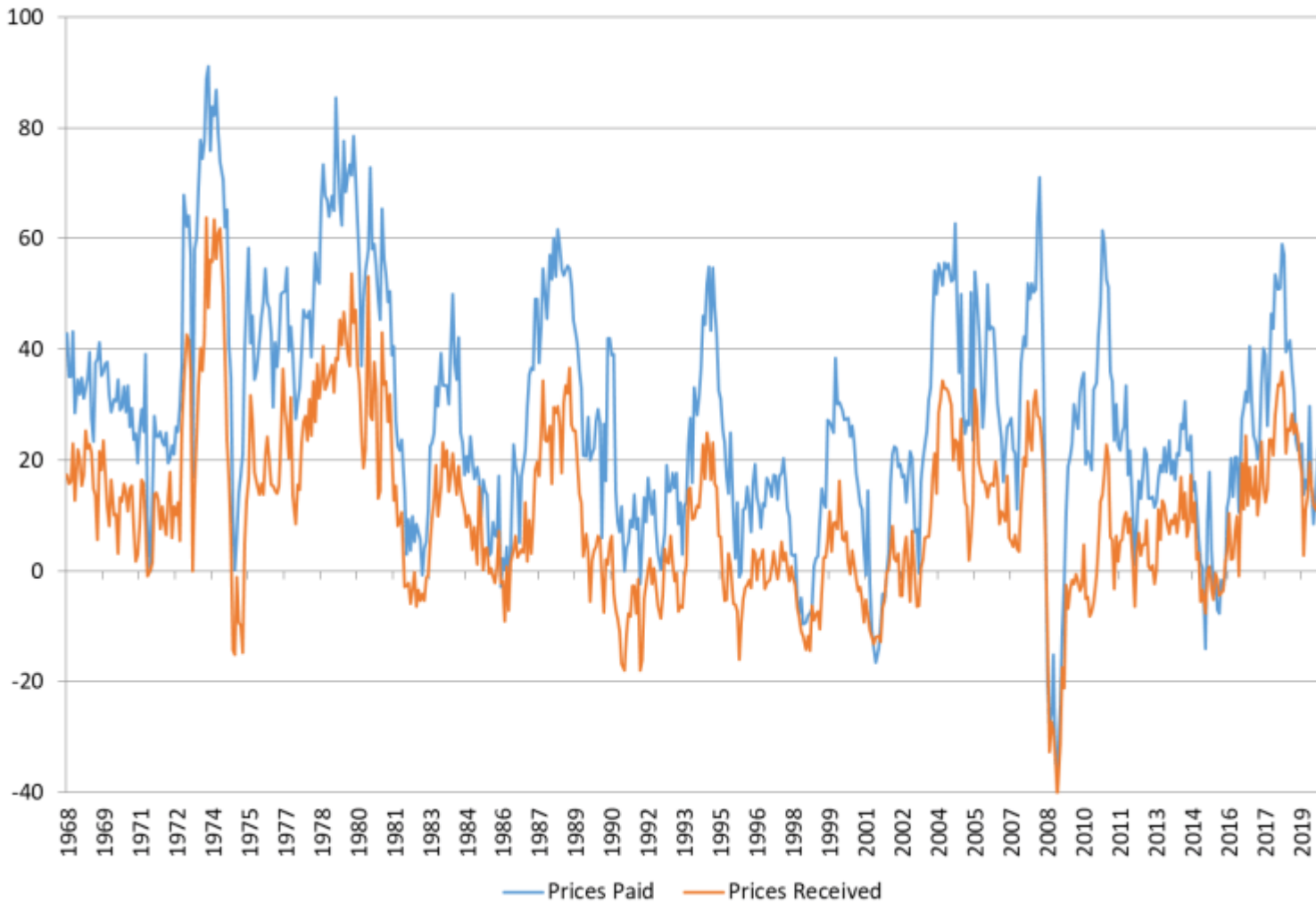
US inflation spiral compares to a stadium stampede

Description

USA: Inflation momentum rose sharply in October, according to the Philadelphia Federal Reserve Bank's October survey of US manufacturing. The Philly Fed report usually anticipates broader surveys of US output and prices. In a classic inflation spiral, customers accelerate purchases in order to buy before prices rise even further, worsening supply constraints and forcing prices higher.

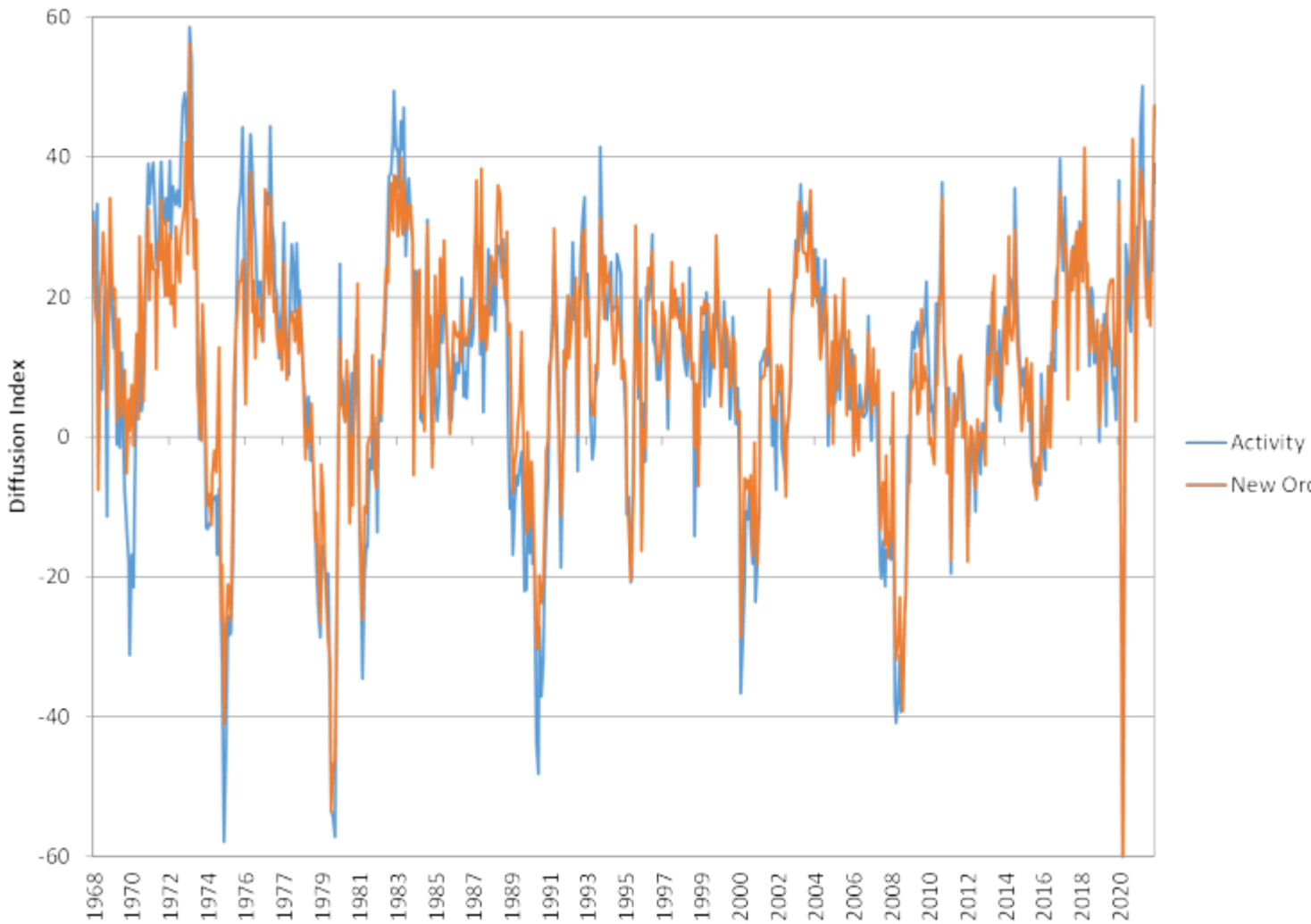
The Philly data are diffusion indices that reflect change from the previous month, not absolute levels of prices or output. They measure inflation momentum, not the level of inflation as such.

Phila Fed Prices Diffusion Index



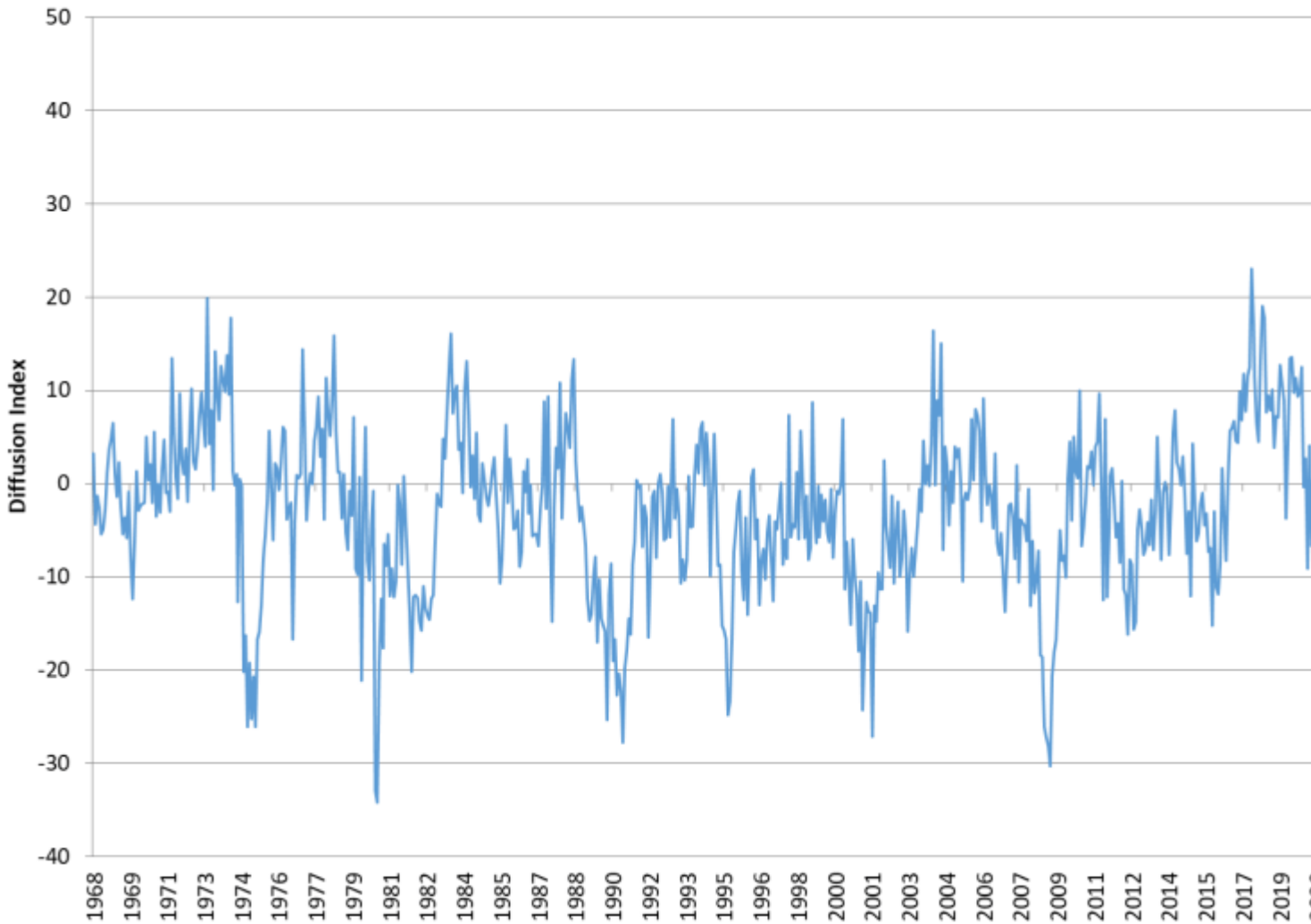
The Phila Fed activity index jumped to 39, its highest level since early 2021, driven by a near-record rise in new orders. But the diffusion index for unfilled orders rose to a record, indicating that supply-chain bottlenecks got worse as new orders poured in.

Phila Fed Activity Index Jumps With New Orders



The diffusion index for delivery times remains at levels never seen in the more than half-century history of the Philadelphia Fed report.

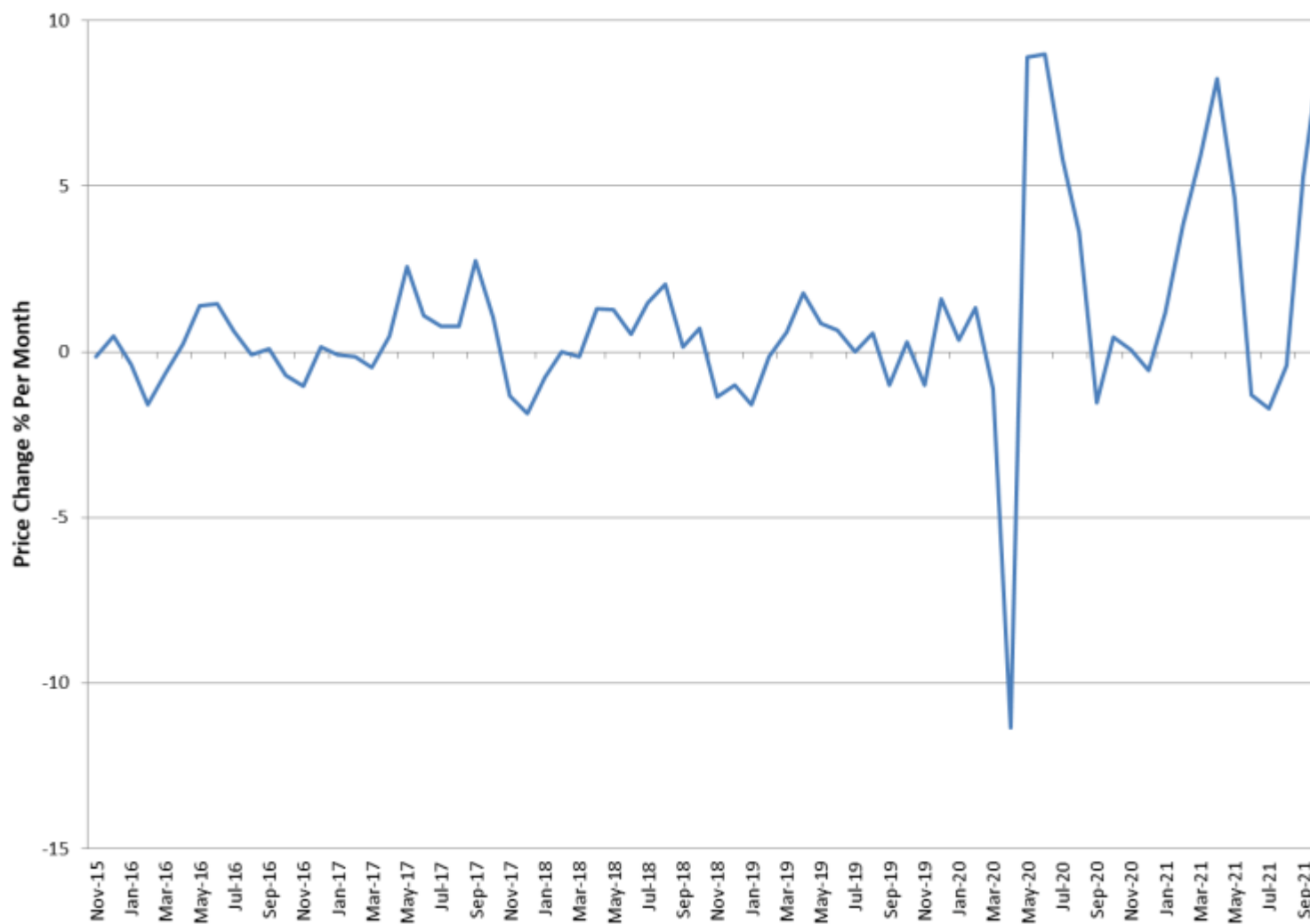
Phila Fed Delivery Times for US Factories



Autos, the largest item in US factory output, illustrate the dynamic. Used car prices continue to rise at an unprecedented pace, with a 5% jump in the month of October alone, according to the Manheim Index. The price of used cars has nearly doubled—from a Manheim Index level of 126 in April 2020 to an index level of 235 in October 2021.

Production cuts by automakers due to the shortage of chips and other components reduced US auto sales from a steady average of about 17 million a year to just 12 million a year in September. But auto sales ticked up to 13 million a year in October, as consumers paid up to buy cars now, in anticipation of even higher prices to come.

Manheim Used Car Price Index



Most respondents to the Philadelphia survey expect prices to increase in the future, so they are attempting to move purchases forward, worsening supply constraints and pushing prices higher. It's the economic equivalent of a stadium stampede.

by David P. Goldman

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