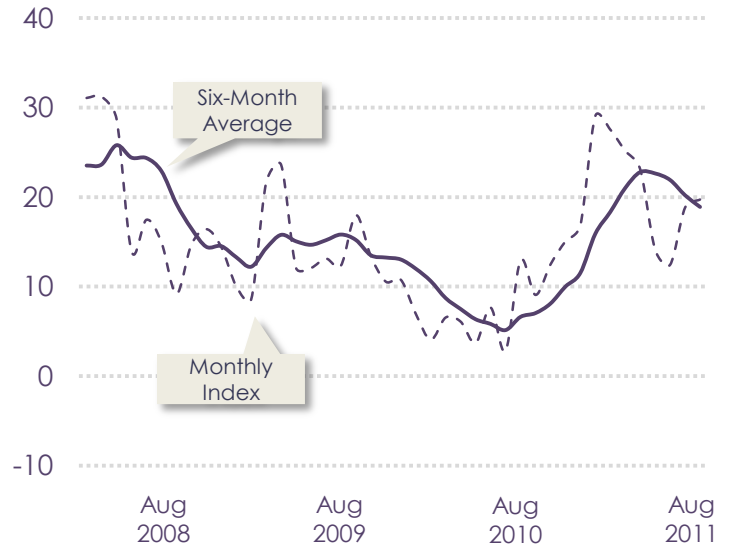


# U.S. CORE INFLATION MOMENTUM MONITOR

AUGUST 2011

## Core Inflation Momentum Index

The U.S. Core Inflation Momentum Monitor increased from +18.8 in July (revised) to +19.7 in August. Money & Credit and Labor Costs made the largest positive contributions to the Index. Expectations and Global factors made smaller positive contributions, while Demand and Energy & Commodities were a drag on the Index. While capacity utilization and hourly wages are on the rise, it is still too early to tell whether this is the start of a new trend. Overall, the six-month moving average continued its slow decline, signaling a pause in the build-up of core inflationary pressures.



## Drivers



**Demand** factors accelerated from 1.9 to 4.7. Capacity utilization gained momentum while services prices decelerated.



**Labor Costs** accelerated from 0.8 to 4.1. The unemployment rate decreased slightly, and average hourly earnings for manufacturing and information services both increased.



**Money & Credit** accelerated from 5.8 to 6.6. M2, consumer revolving credit, and C&I loans are all accelerating.



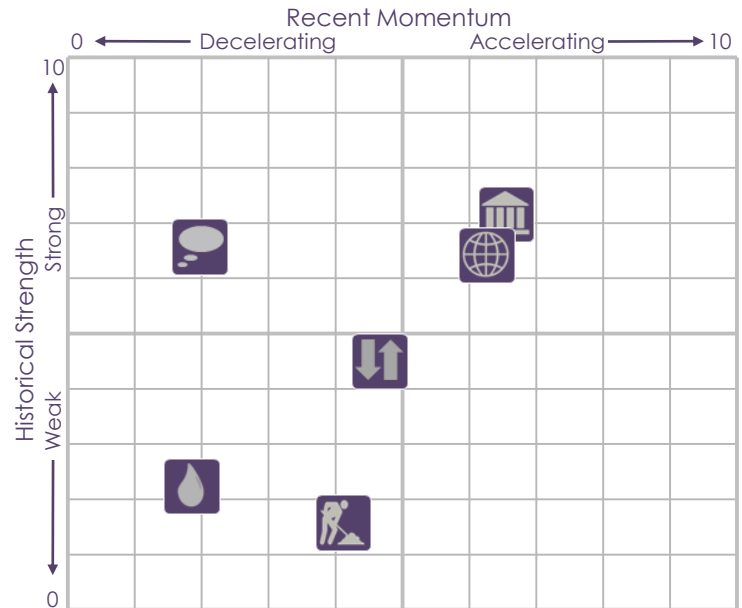
**Expectations** increased from 0.8 to 2.0. However, the University of Michigan inflation expectations survey and owners' rental equivalent remain in a disinflationary phase.



**Energy & Commodities** decelerated from 3.4 to 1.9. By mid-month, oil prices had fallen \$8.98/barrel, and metals prices were down 5%.



**Global** factors were relatively steady, declining from 6.4 to 6.3. The dollar weakened slightly and import prices increased at a slower pace than in recent months.



## Key Data Point

**77.5%** Capacity utilization reached a 3-year high.

## Signal To Watch



Are wages on the rebound, or was this month's improvement only temporary?

# U.S. Core Inflation Momentum Monitor Data Table

	Indicator	Units	Latest Tick	Recent Momentum		Historical Strength		Comments
				Indicator Rating	Sector Rating	Indicator Rating	Sector Rating	
				(0-10)	(0-10)	(0-10)	(0-10)	
Demand	Capacity Utilization	%	77.5%	9.03	4.67	2.55	4.50	Increased 0.6 percentage points to a 35-month high
	ISM Non-Manufacturing Prices	Index	56.6	0.30		6.44		Above 50 signals rising prices; Continued a 5-month decline
Labor Costs	Unemployment Rate	%	9.1%	4.97	4.12	0.78	1.57	Primary labor market indicator; Declined by 0.1%
	Manufacturing AHE	\$ per hour	19.02	6.08		3.83		Indicator for manufacturing sector; Increased at an above-average pace
	Information AHE	\$ per hour	26.55	1.31		0.11		Indicator of high-tech services sector; Rebounded after last month's drop
Money & Credit	M2	Billion \$	9,313	9.96	6.55	9.96	7.16	Money supply; Up 8.2% y/y
	Consumer Revolving Credit	Billion \$	798	4.59		4.70		Indicator of consumer credit availability; Increased to 7-month high
	Commercial & Industrial ("C&I") Loans	Billion \$	1,266	5.11		6.82		Measure of credit to private sector; Up nearly 5% y/y
Expectations	UMich Inflation Expect. (6 mos.)	%	1.7%	0.96	1.97	8.79	6.57	Indicator of current inflation; Flat from last month
	Owners' Equivalent Rent	Index (1982=100)	259.7	2.98		4.34		Households' biggest expense; Largest gain in 32 months
Energy & Commodities	WTI, Oil Price	\$ per barrel	88.21	1.35	1.85	0.30	2.23	Key driver of headline inflation; Fell \$8.98 by mid-month
	CRB Metals	Index (1967=100)	1010.5	2.35		4.16		Indicator of demand pressure; Down 5% by mid-month
Global	Broad Dollar Index	Index (1997=100)	94.8	6.79	6.26	6.36	6.42	Weaker dollar increases inflationary pressure; Lowest level since Nov. '95
	Import Prices, Ex. Petroleum	Index (2000=100)	116.6	5.73		6.47		Imported inflation is up 5.5% y/y

<sup>1</sup> "Recent Momentum" represents an indicator's recent acceleration or deceleration in the past month relative to its average movement in the previous 3 months. Ratings below 5.0 represent an indicator that is decelerating more rapidly than average, while ratings above 5.0 represent an indicator that is accelerating more rapidly than average.

<sup>2</sup> "Historical Strength" represents an indicator's strength or weakness in the previous 3 months relative to its average level in the past 10 years. Ratings below 5.0 represent an indicator that is weaker than average, while ratings above 5.0 represent an indicator that is stronger than average.

## About the Keybridge U.S. Core Inflation Monitor

The U.S. Core Inflation Momentum Monitor is designed to anticipate shifts in inflation that are likely to affect the U.S. Core CPI inflation in the following six months. It is based on analysis of 14 high-frequency indicators with a proven history of signaling near-term inflationary pressures. The indicators are organized into six economic sectors: demand, labor costs, money & credit, expectations, energy & commodities, and global factors. Overall shifts in inflationary pressures are signaled by the Inflation Momentum Index while specific drivers of inflationary pressures are identified through the Sector Inflation Matrix.