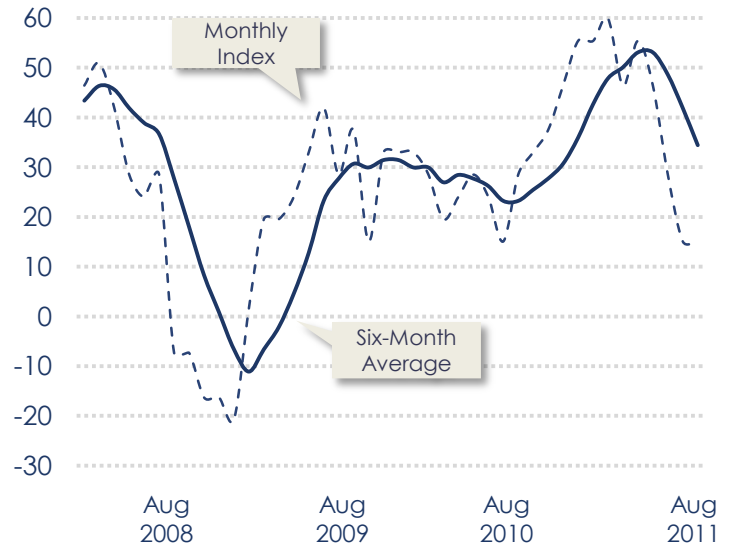


# U.S. HEADLINE INFLATION MOMENTUM MONITOR

AUGUST 2011

## Headline Inflation Momentum Index

The U.S. Headline Inflation Momentum Monitor held steady at +15.0 from July to August, and the six-month moving average declined 7.4 points to +34.5. Money & Credit and Expectations were the only two sectors exerting upward inflationary pressure. Energy & Commodities and Global Factors were neutral, while Demand made a negative contribution to the Index. Overall, the steady decline in the Index's six-month moving average suggests that price pressures are declining and could result in year-year inflation reverting to its average level of about 3% later this year.



## Drivers



**Demand** factors accelerated from 2.1 to 3.9. Capacity utilization gained momentum and the PPI held relatively steady, 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** fell slightly from 5.4 to 5.2. M2 and C&I loans are both accelerating, and Fed Funds rate reached an all-time low.



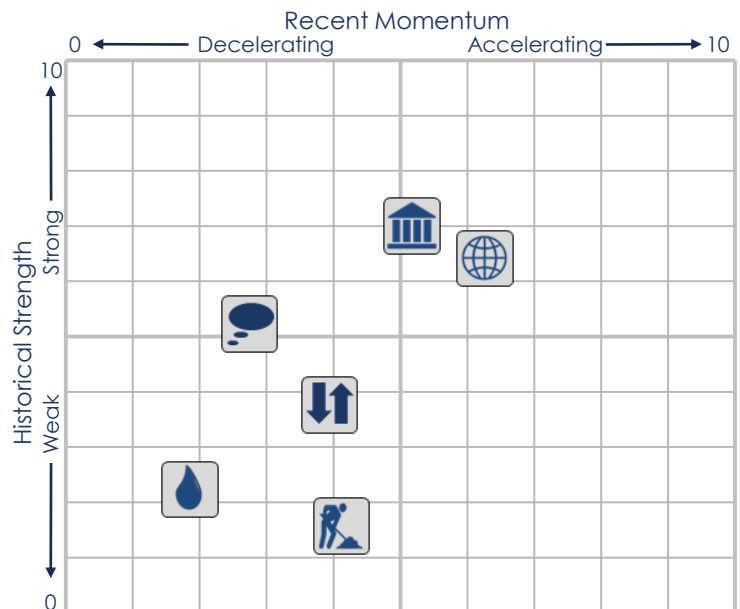
**Expectations** shifted slightly from 1.8 to 2.7. The TIPS spread, the University of Michigan inflation expectations, and owners' rental equivalent all remain in a disinflationary phase.



**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, shifting 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

**-20%** The decline in oil prices during the past 4 months.

### Signal To Watch

 Will concerns about slower world growth bring even lower oil prices?

# U.S. Headline 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	3.94	2.55	3.76	Increased 0.6 percentage points to a 35-month high
	PPI: Finished Goods	Index (1982=100)	191.4	2.48		2.28		Increased 0.2% from last month, and up 7.2% y/y
	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	5.18	9.96	7.00	Money supply; Up 8.2% y/y
	Federal Funds Overnight Rate	%	0.1%	0.46		4.22		Indicator of monetary policy; Remains near all-time lows
	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	2.74	8.79	5.23	Indicator of current inflation; Flat from last month
	TIPS Spread	% spread	2.4%	4.28		2.55		Indicator of market expectations; Increased 15 bps 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. Headline Inflation Monitor

The U.S. Headline Inflation Momentum Monitor is designed to anticipate shifts in inflation that are likely to affect U.S. Headline CPI inflation in the following six months. It is based on analysis of 16 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.