

# THE ECONOMIC OUTLOOK GROUP



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## ECONOMIC TALKING POINTS

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### Modest Growth in the US & International Economy Has Helped Cool Inflation

Following Thursday's benign CPI report, the government released another important indicator that further substantiates inflation's downward trek.

While the producer price index (PPI) on final demand for goods and services did tick up 0.3% last month, it followed five straight months of little or no price increases at all. Context is always important when it comes to economic data.

The latest increase was due to a 0.5% jump in the services component, which easily overshadowed the 0.1% price rise in final demand for goods.

However, take a step back and one sees that producer prices over the past 12 months crept up *less than 1% (0.8%)!!* And core final demand (which removes food and energy from the equation) rose 2.7%. Core PPI thus matched June's increase, and that turned out to be smallest in more than two years.

**There's more good news in this report. Bubbling beneath all these mild inflation winds one finds fresh data that suggests inflation will continue to fall in the months ahead.**

**Check out the behavior of prices during earlier stages of production. For example, in the category of intermediate goods, which are semi-processed items that are sold to manufacturers for producing of finished goods, prices there actually *declined* by 0.6% last month, the biggest drop of the year! Over the past 12 months, the price of intermediate goods *tumbled* 7.8%. That was the fifth consecutive month of actual *deflation* in this sector.**

**The drop was even steeper for unprocessed intermediate goods (examples here would include wheat, corn, coal, natural gas, crude oil...). While this component inched up 1.7% during the month, it was *down 24.9% from a year ago*. Mind you, this was the sixth straight month producer prices for unprocessed goods fell by *double-digits percentages*!**

**What makes all this so meaningful is that as the price of inputs keeps dropping, it will help contain inflation pressures higher up the production chain --- and ultimately have a moderating effect on consumer prices.**

**What's behind this downtrend in inflation?**

- 1. Much of the global economy is still struggling due to severely restrictive monetary policy as nations try to combat local inflation. That's especially the case with Europe and Latin America.**
- 2. China is still struggling to rev up its own domestic economy as it tries emerge from Covid-19, address its massive government debt and work on solving real estate financial bubble. Given China's role in the global marketplace, any material slowdown in its growth will effectively reduce the demand for key commodities, like crude goods and industrial metals, and that should also tame the prices.**
- 3. Global supply chain pressures also significantly eased this year, according to the Federal Reserve Bank of New York. With goods now moving more smoothly in international commerce, we're seeing faster delivery times, from basic commodities to finished products, and that also helps contain prices.**

**4. Despite the Atlanta Federal Reserve's GDPNow estimate showing 3rd quarter expanding at a hefty 4.1% pace, we believe when all the data for the period is in we will wind up growing only half that pace (2.1%).**

**The reason? We expect to see a deceleration in household spending in the second half of this year. Consumer sentiment is already starting to wobble, based on mid-August numbers. Let's face it, Americans are not totally impervious to higher borrowing costs. Moreover, tens of millions of individuals face the prospect of resuming payments on their student loans.**

**Still, we're not expecting a total collapse on household outlays. Labor markets are demonstrating tremendous resilience. Unemployment rates remain at half century lows, and workers are now enjoying real wage increases. Thus, while the US economy managed to grow above a 2% rate in the first half of the year, that pace should dip below 2% the second half of 2023.**

**The combination of more moderate consumer spending, along with a delayed recovery in the international economy sets the stage for disinflation to persist the rest of the year.**

<b>United States</b>																
	I 2022	II 2022	III 2022	IV 2022	I 2023	II 2023	III 2023	IV 2023	I 2024	II 2024	III 2024	IV 2024	I 2025	II 2025	III 2025	IV 2025
<b>Real Gross Domestic Product (GDP):</b>																
%	-1.6	-0.6	3.2	2.6	2.0	2.4	2.1	1.9	1.3	3.0	2.2	2.6	1.7	1.9	3.0	2.6
<b>Personal Consumption Expenditures:</b>																
PCE %	1.3	2.0	2.3	1.0	4.2	1.6	1.2	2.0	1.5	2.9	3.1	2.7	1.7	2.8	3.1	2.9
<b>Inflation, end of period, year-over-year:</b>																
CPI %	8.5	9.1	8.2	6.5	5.0	3.0	2.7	2.7	2.5	2.5	2.8	2.6	2.6	2.5	2.5	2.5
<b>Unemployment Rate (end of period):</b>																
%	3.6	3.6	3.5	3.5	3.5	3.6	3.8	4.0	4.1	4.0	3.9	3.8	3.8	3.7	3.5	3.5
<b>Non-farm Payrolls, monthly avg. thousand:</b>																
	561	329	423	291	295	244	220	225	180	240	285	260	200	265	310	270
<b>Treasury 10-yr Note Yield % (end of period):</b>																
	2.32	2.97	3.80	3.83	3.47	3.82	3.90	3.76	3.55	3.50	3.60	3.65	3.60	3.48	3.35	3.35
<b>Federal funds rate % (end of period):</b>																
	0.38	1.63	3.13	4.38	4.88	5.13	5.38	5.38	5.38	4.88	4.38	4.13	3.88	3.63	3.13	3.13

## GDP Growth - Global Economy - Year over Year

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
US	2.6	1.6	2.2	1.8	2.3	2.7	1.7	2.2	2.9	2.3	-2.8	5.9	2.1	1.5	2.5
Eurozone	1.7	1.4	-0.9	-0.2	1.4	2.1	1.9	2.5	1.8	1.6	-6.2	5.3	3.5	0.8	1.7
United Kingdom	1.7	0.7	0.3	1.8	2.9	2.2	1.9	1.9	1.7	1.7	-9.3	7.6	4.1	-0.1	1.1
Japan	4.6	-0.4	1.6	1.5	-0.1	1.1	0.5	1.7	0.6	-0.2	-4.6	1.7	1.0	1.2	0.9
Canada	3.1	3.1	1.8	2.3	2.9	0.7	1.0	3.2	2.8	1.9	-5.1	5.0	3.4	1.6	2.4
India	8.4	8.6	6.7	4.9	7.4	8.0	8.1	7.2	6.4	3.8	-6.6	8.7	6.7	5.6	6.6
China	10.5	9.5	7.8	7.7	7.3	6.9	6.7	6.8	6.7	6.0	2.2	8.1	3.0	5.1	5.4
Brazil	7.5	2.7	0.9	2.3	0.1	-3.5	-3.5	1.2	1.2	1.7	-3.6	5.3	3.0	2.1	2.7
Mexico	5.2	4.0	3.9	1.4	2.3	2.7	2.7	2.4	2.2	-0.2	-8.2	4.9	3.0	2.5	2.2
Australia	2.8	2.6	3.6	2.4	2.6	2.5	2.4	2.4	2.7	1.8	-1.1	4.7	3.7	2.1	2.8
Russia	4.0	4.3	3.4	1.3	0.6	-2.8	-0.2	1.6	2.8	2.2	-2.7	5.6	-2.1	-0.2	1.5
World	4.2	3.1	2.5	2.6	2.8	2.8	2.6	3.4	3.2	2.6	-3.1	6.0	3.1	2.3	2.9