For a world awash in runaway inflation, there sure are a lot of inflation indicators in outright contraction.

Much of Wall Street was checked out for Thanksgiving when Germany, the world’s fourth-largest economy, laid down a doozy of a Producer Price Index (PPI) report early last week. The consensus expected a 0.9% month-over-month increase in factory gate prices, just another in a string of inflationary revelations dating to COVID-19’s early days. Instead, we got a stunner: Germany’s PPI declined 4.2% over the month.

You never want to pop the champagne over one PPI report. Nevertheless, Germany’s news comes amid a backdrop of China and India, #2 and #5 in the GDP pecking order, respectively, both having PPI indexes that are lower than where they stood six months ago. Perhaps most importantly, our own U.S. PPI indexes, whether it’s the All Commodities gauge or the one that captures “Total Manufacturing Industries,” peaked in June.

That wasn’t all that reached a crescendo that month.

Recall that West Texas Intermediate (WTI) crude oil was busting up through $120 at the time. The war in Ukraine was young; Europe was still figuring out what the heck it planned to do this winter. In tandem, the vibe on the Street was that U.S. drivers were going to demand gasoline en masse, while China’s “zero COVID” policy was thought to be on the precipice of being lifted. We now know that the latter—China ending its hodgepodge of multi-year city-by-city lockdowns—still has not come to pass. WTI crude oil has subsequently slinked about 45 points, bopping at around $78 in the sleepy days surrounding Thanksgiving.

Rents and home prices are also in decline. By most accounts, residential rents have been softening for a good 90, maybe 120 days. Existing homes, which make up 85% of all transactions, also slid in July, August, September and October, bringing June’s $413,800 median price spiraling to $379,100. In last week’s Twitter Space, which is essentially a mass conference call, we asked HousingWire’s Logan Mohtashami when these outright home price declines will start to show up in the U.S. CPI data. His answer: the back end of 2023. Until then, both owners’ equivalent rent and rent will artificially boost the headline number.

Perhaps the greatest wonder in the battle to tame U.S. inflation has been that it came amid a dollar surge. That’s not supposed to happen.

Now, just as it appears that inflation is ready to subside, the dollar has decided to trip over itself. It wasn’t that long ago—mid-October, to be exact—when the Japanese yen was on the ropes at ¥150, weaker than any other time in the prior 24 years. The Bank of Japan was scrambling, dumping USD to purchase yen in an action that now looks successful; the yen has spent the last few weeks rallying to ¥139.

Other currencies also caught a rally. The euro was well below parity for much of October, getting as low as $0.96 at one point, but that didn’t last; the relief rally has brought it back up to $1.04. Similar action has been witnessed in other currencies of note, namely the British pound.

As CPI seems poised to decelerate in 2023, perhaps even more quickly than expected, it will be important to watch the dollar, which is suddenly against the wall. The follow-through from its 2022 strength is part of the reason inflation will come off the boil in 2023. However, if the recent action in foreign exchange is the beginning of something more notable—a dollar bear—we could be witnessing the seedlings of a 2024 or 2025 reflation thesis.

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Glossary:

**Consumer Price Index (CPI):** A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living. Core CPI excludes food and energy costs.

**Gross Domestic Product (GDP):** The sum total of all goods and services produced across an economy.

**Inflation:** Characterized by rising price levels.

**Producer Price Index (PPI):** A weighted index of prices measured at the wholesale or producer level.

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