

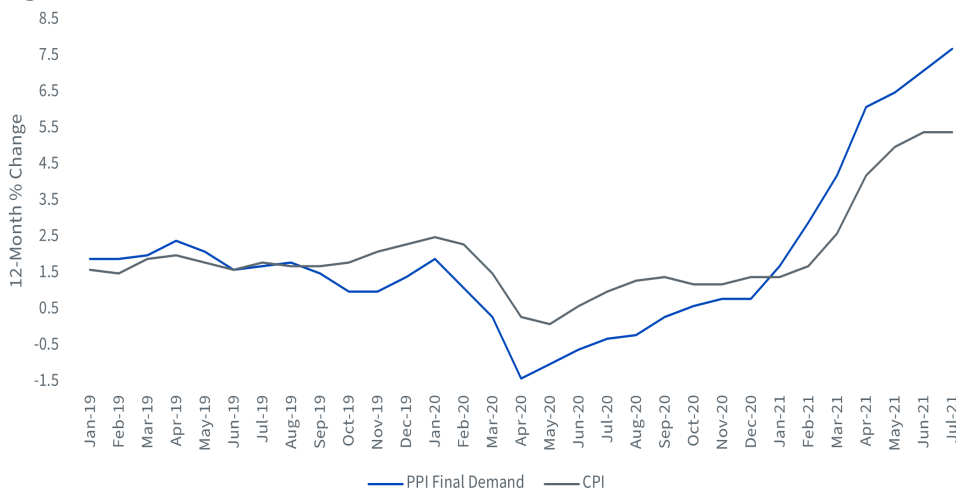
WHAT'S ON THE INFLATION HORIZON?

Kevin Flanagan — Head of Fixed Income Strategy
08/25/2021

The title of this blog is, without a doubt, what investors are quite eager to find out. Two weeks ago the markets received the July data for both the [Consumer Price Index \(CPI\)](#) as well as the [Producer Price Index \(PPI\)](#). The lion's share of the headlines tends to go to the CPI, but this report is like looking in the rearview mirror, to coin a phrase. In order to see where the road to [inflation](#) may be headed, the PPI figures may provide better insights.

After posting outsized gains in the prior four months, the July CPI increase was pegged at a more moderate 0.5% on a monthly basis. However, the year-over-year rate remained unchanged at its elevated 5.4% reading. Nevertheless, some market participants were quick to point out that the recent string of year-over-year gains had not continued.

Figure 1: U.S. Final Demand & CPI



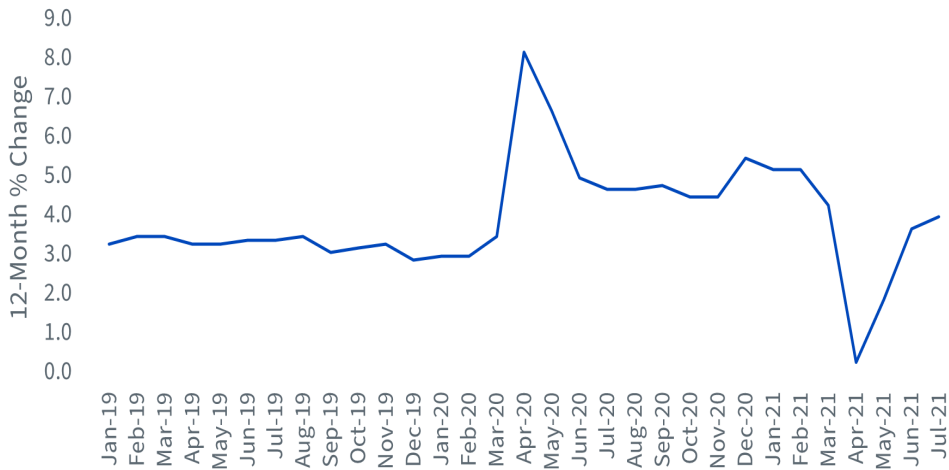
Source: BLS, as of 8/19/21.

This is where the PPI data comes into view. But before I get into that discussion, first some Inflation 101. The PPI report represents price trends at the wholesale level while CPI data represents retail prices. So, in theory, one could make the case that the trend in place for wholesale prices could logically work its way through to the retail level. For the record, it's not always a clean pass-through, but as you can see from the graph (Figure 1), the trendlines have seemed to fit for the most part over the last few years.

Back then to PPI, where the Bureau of Labor Statistics (BLS) reported that the 12-month increase for the final demand index rose 0.5 percentage points to 7.8%, the largest advance since this data was first calculated in November 2010. Is this a harbinger of what's to come? At a minimum, it certainly represents a challenge to the 'inflation is transitory' case.

You know another trend that bears watching? Wage increases. The graph below underscores how the year-over-year increase for average hourly earnings has been on a roller-coaster ride over the last 12 to 18 months. Prior to the COVID pandemic, the 12-month gain for wages had been rather range-bound around the 3.0% to 3.5% band. Once the economy locked down after February of last year, the increase spiked to as high as 8.2% in April. With low-wage earners being hit disproportionately harder by the lockdown and becoming unemployed, the labor market data was left primarily with the higher-wage worker component. Thus, the spike. As you can see, as the labor market began to normalize, the trend began to reverse, and when the lower-wage worker returned, the 12-month gain actually sank to a low of 0.3% in April of this year.

Figure 2: Average Hourly Earnings



Source: Bureau of Labor Statistics, as of 8/19/21.

Now, with a ‘fairer’ representation among those who are employed, one can draw an interesting conclusion; namely, wage gains appear to be gaining traction even with the inclusion of the low-wage earner. In fact, the 12-month increase for July was pegged at 4.0%.

The bottom line message is that if the rising trend in wholesale prices get passed through to households and wage trends become visibly elevated, it is difficult to envision inflation coming back down toward the Fed’s 2% target any time soon, and perhaps, in the foreseeable future.

Related Blogs

- + [July U.S. Dividend Update in Charts](#)
- + [Fed Watch: When Doves Cry](#)
- + [What’s Behind the Drop in the Treasury 10-Year Yield?](#)

Related Funds

- + [WisdomTree Interest Rate Hedged High Yield Bond Fund](#)
- + [WisdomTree Interest Rate Hedged U.S. Aggregate Bond Fund](#)
- + [WisdomTree Floating Rate Treasury Fund](#)

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Kara Marciscano, Jianing Wu and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

DEFINITIONS

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.

Producer Price Index : weighted index of prices measured at the wholesale, or producer level.

Inflation : Characterized by rising price levels.