



# Inflation In Focus: Normality in Sight

**INFLATION TRENDS** Aggregate inflation continues to improve in most markets, though some of the strongest fuel price inflation on record is playing a key role in pushing headline prices higher (Figure 3). Even so, relative to all other deflationary troughs observed over the last ten years, the most recent was the shallowest and prices have recovered to previous peak levels the fastest (Figure 1). Though demand and global output are far from fully recovered, price trends are starting to look more ‘normal’.

**US/Canada:** PriceStats continues to point to a further firming of US prices, running at +0.5% mom in July, matching the prior month gain. This represents the 2<sup>nd</sup> consecutive month of gains, and absent another series of lockdowns will quell any deflationary concerns. The bounce in energy prices have contributed, but as our colleagues noted in another [report](#), our sector series shows above average seasonal rises in furnishing and housing, recreational and electronics and clothing. Basket configuration also distorted the late spring decline, and a COVID basket of goods have been researched by [Alberto Cavallo](#). While further firming is expected, challenges in measuring rents during the eviction moratorium and the base impact of falling prices will keep overall gains in check until at least early next year. Figure 2 shows how quickly prices in various DM economies have rebounded, and Canada is now posting some of the strongest gains. Many of the same components that drove US prices are applicable to Canada, although the BOC has a dourer outlook for next year relative to the Fed and private economists. The 70-bps spread between the 1.2% 2021 BOC CPI estimate and 1.9% private forecast stands out as a potential inflation surprise to watch for the coming months.

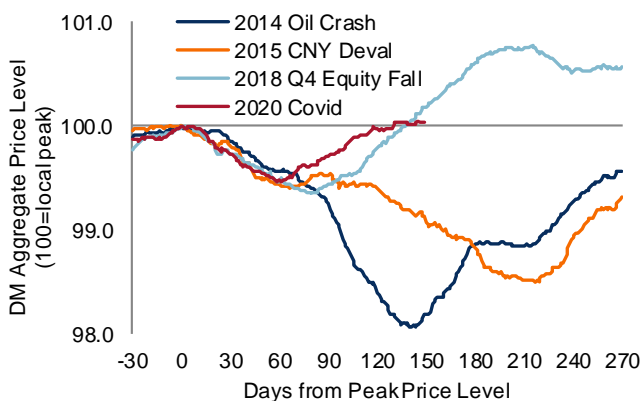
**Euro idiosyncrasies:** Month to date, Eurozone online inflation looks a bit stronger than forecasted expectations for tomorrow’s release of the flash estimate for July. However, we would caution against reading too much into this strength. July brings strong seasonal discounting in Europe, particularly from Spanish retailers, a trend reinforced by what we see at a country level (Figure 5). Moreover, food prices remain under pressure in the Eurozone, reversing the inflation seen when supply chains were more stretched earlier this Spring (Figure 7). Given the volatility of these influential factors, it is fair to say that the Eurozone is recovering nicely from the worst of demand driven deflation, but that we should not get too excited about stronger than normal inflation.

**UK on the recovery path; Japan, less so:** Last month, we [noted](#) the weakness of UK inflation relative to DM peers. This month, despite a still-weak contribution from food prices, we see a strong rebound and monthly inflation now looks stronger than seasonal norms. We also highlighted the weakness of price formation in Japan, but here, July has proven more disappointing. In fact, despite Japan being one place where retailers are still running higher than normal out of stock (OOS) items (Figures 9 and 10), prices have flat-lined. As far as we can tell, last October’s rise in sales tax is the only contributing factor to rising prices over the last year.

**OUT OF STOCK** We have been monitoring trends in online goods availability for the last five months. We can now say with some degree of confidence that, outside of a small number of countries, the worrisome scarcity of goods at the outbreak of the pandemic in the Western world has normalised. As such, we aim to temporarily ‘retire’ our focus on OOS data in this monthly document and cease weekly publication of the data, until such time as these trends become more noteworthy to cover. The final look for now is on page three.

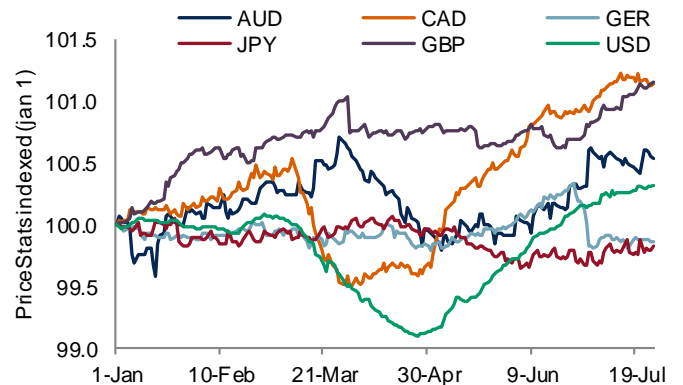
## SPOTLIGHT TRENDS

**Figure 1 Fastest recovery from deflation yet**



Source: State Street Global Markets, PriceStats

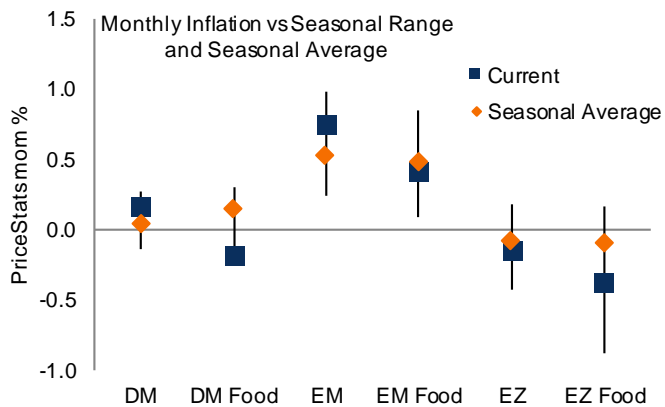
**Figure 2 Price gains leaders and laggards**



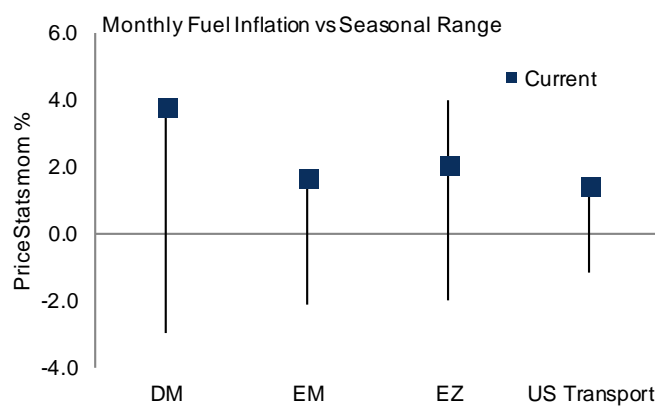
**INFLATION TRENDS**

The following charts plot the latest (up to and including 25/26 July 2020) month-on-month change in various PriceStats aggregates against the average and range seen for the exact same period over the past 10-years where data are available.

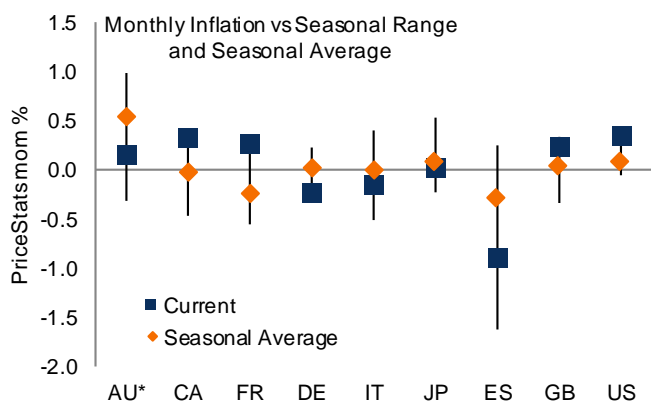
**Figure 3 Aggregate Inflation, mom %**



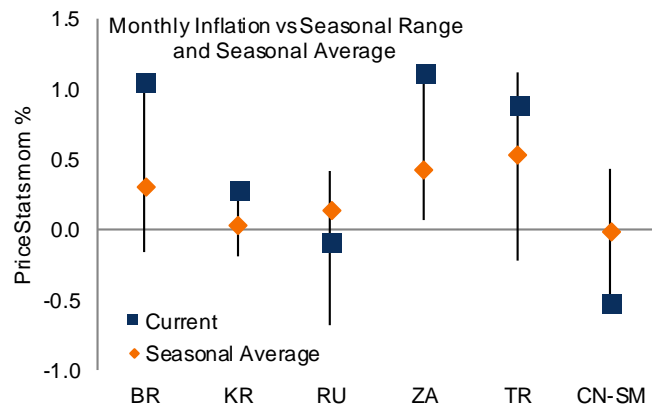
**Figure 4 Aggregate Fuel Inflation, mom %**



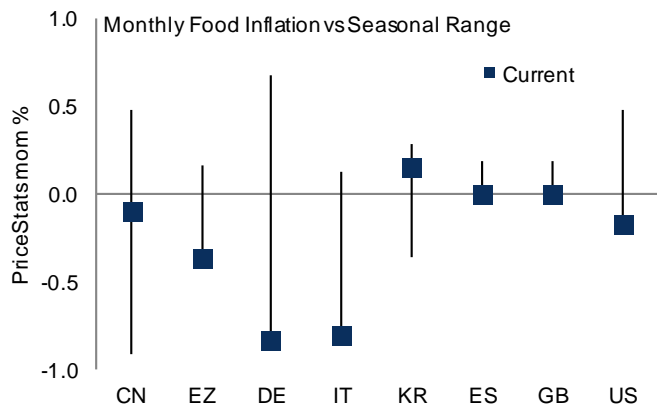
**Figure 5 Developed Market Country Inflation, mom %**



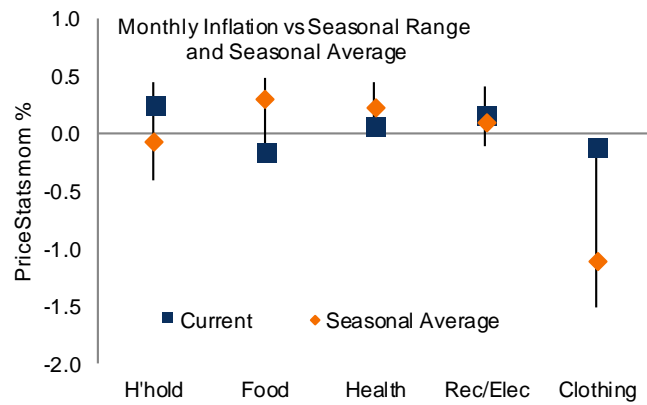
**Figure 6 Emerging Market Country Inflation, mom %**



**Figure 7 Food Inflation, mom %**



**Figure 8 US Sector Inflation, mom %**



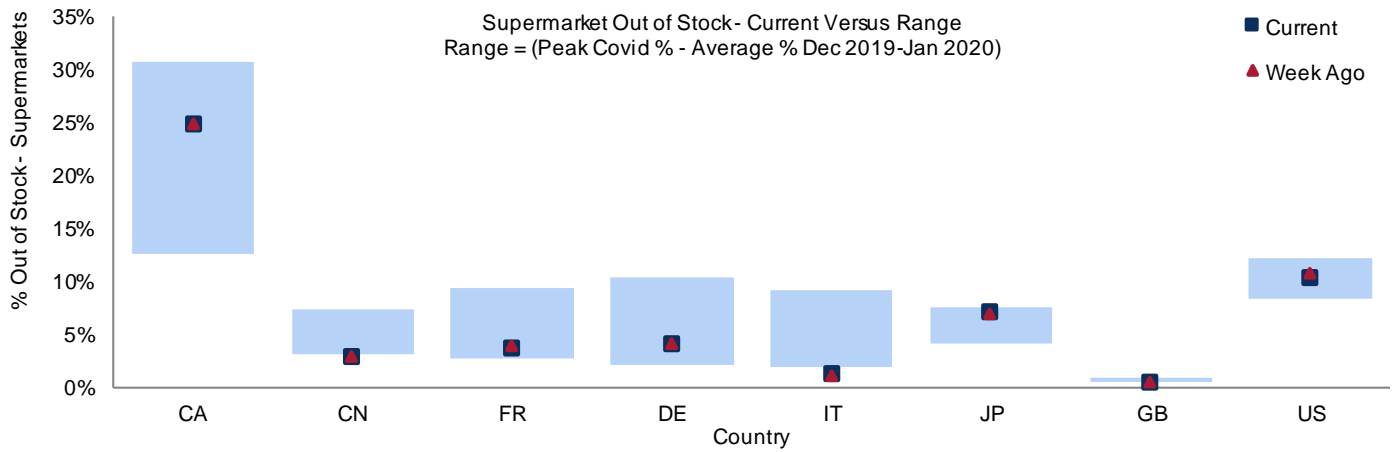
Source for Figures 3-8: State Street Global Markets, PriceStats; \* Australia is qoq%

OUT OF STOCK TRENDS

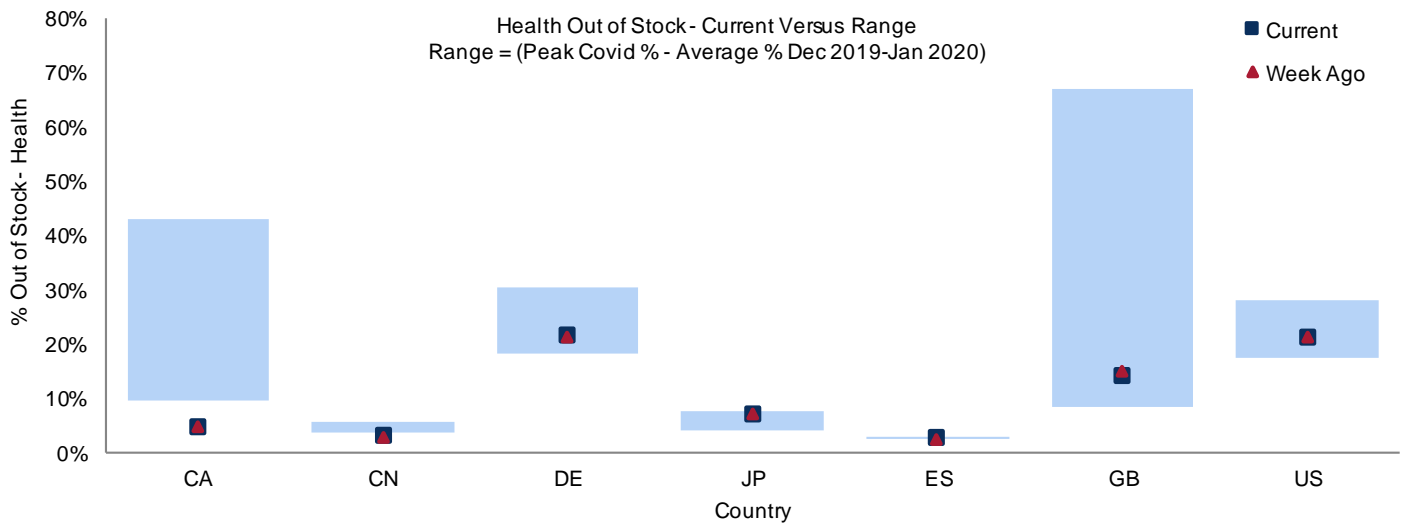
The following charts plot recent trends in PriceStat’s experimental out of stock (OOS) series. These series calculate the percentage of items that are listed as “out of stock” on the websites of our retailers, large supermarkets that sell both an online and offline, out of the total number of items scraped from those retailer each day (see appendix for more details).

We present the latest OOS data (27 July 2020), as well as the level a week ago within country-level ranges seen during the crisis, to better detect movement and deviations from norms.

**Figure 9 Goods Availability – Supermarkets**



**Figure 10 Goods Availability – Health**



Source: State Street Global Markets, PriceStats; UK retailers prioritise essential Health items and classify many non-essential items as Out of Stock, skewing range

**APPENDIX: NOTES ON THE DATA**

The Out of Stock Series produced by PriceStats includes large retailers that sell either food or health items and that show an out of stock indicator on their website. The number of retailers with such an indicator is limited. Therefore, the number of retailers used for this series is significantly lower than in the other series and may not be representative of a country's out of stock context.

PriceStats use, on average, four retailers per series for the Supermarket sector and two retailers per series in the health sector. We have calculated a new metric to show the representative power of our OOS series - the percentage of total items sold by Supermarkets that PriceStats scrapes that are included in the OOS series. By country, these percentages are:

<b>Canada:</b> 87%	<b>China:</b> 5%	<b>France:</b> 97%	<b>Germany:</b> 23%
<b>Italy:</b> 17%	<b>Japan:</b> 7%	<b>UK:</b> 80%	<b>USA:</b> 81%

The online presence of retailers may not be reflective of item availability in a particular store in areas affected by the novel Coronavirus (COVID-19).

Metrics for the Out of Stock Series may include slight discrepancies from week to week. This is because PriceStats is continually improving their methodology for calculating these statistics and are working on including new retailers in the analysis.

*All prices are current up to Jul 25-26, 2020 and Out of Stock series are current to Jul 27, 2020.*

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