

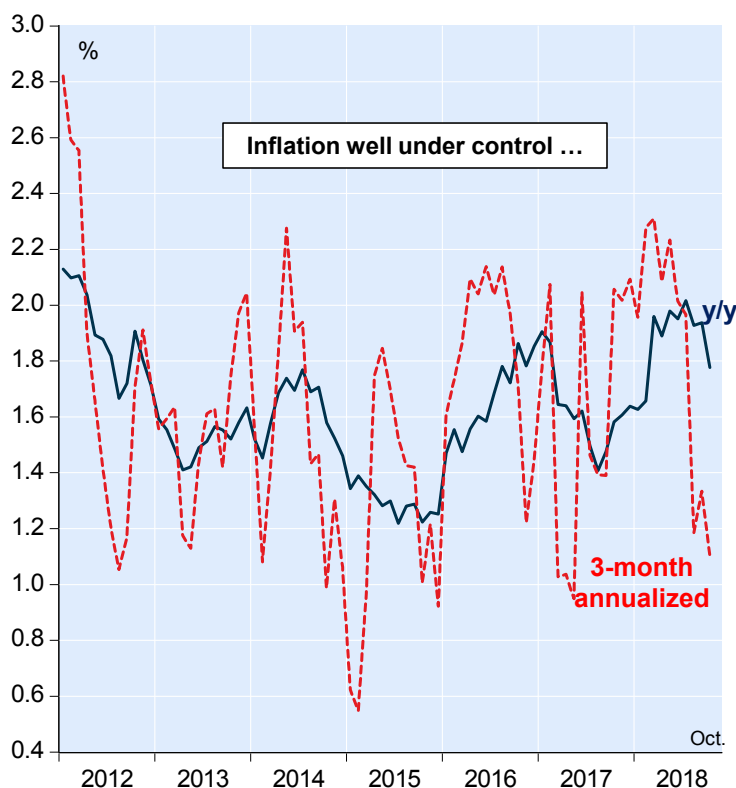
U.S. Watch

By Krishen Rangasamy

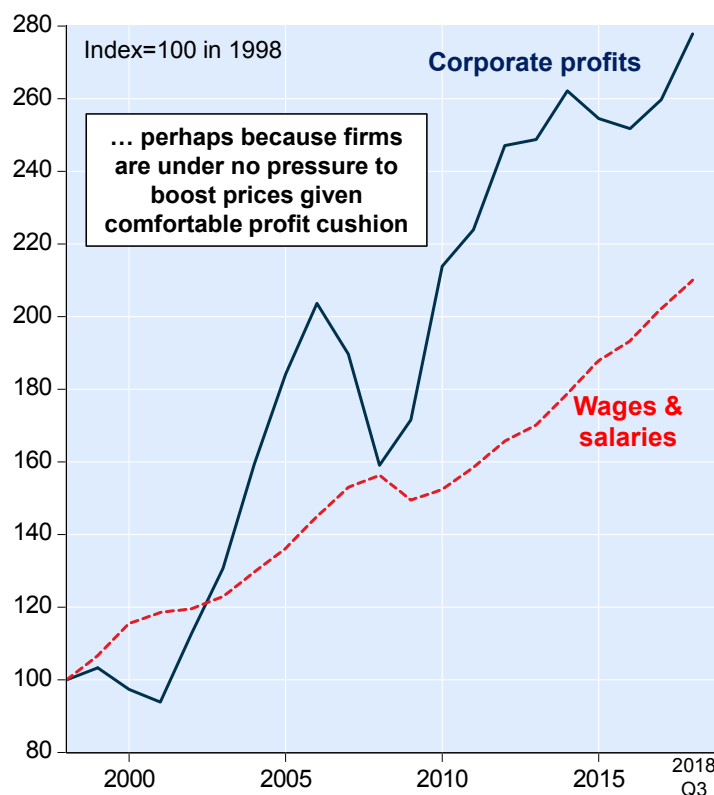
With wages on the rise, one would have expected some cost-push inflation. But after picking up steam earlier in the year, consumer prices seem to be moderating again as evidenced by the core PCE inflation rate dropping in October to 1.8% year-on-year, or below the Fed's 2% target. The core PCE's more recent trends should be concerning from the Fed's standpoint given that the three-month annualized rate sank to just 1.1%, the lowest since May last year. The strong dollar is keeping import prices under wraps and it's also possible firms, intent in maintaining market share, are opting to absorb rising costs instead of passing them on to consumers. Their profit buffer, made more significant thanks to earlier corporate tax cuts, seems to be helping cushion the blow of rising costs. As today's *Hot Charts* show, corporate profits have outpaced wages and salaries over the past decade. Third quarter data, which came out yesterday, was no exception as corporate profits rose to a record US\$2.3 trillion or +10.3% on a year-on-year basis, which is more than double the 4.2% increase for wages and salaries.

U.S.: Why is inflation not taking off?

PCE core inflation rate



Corporate profits with IV and CCA versus Wages & salaries of employees



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