

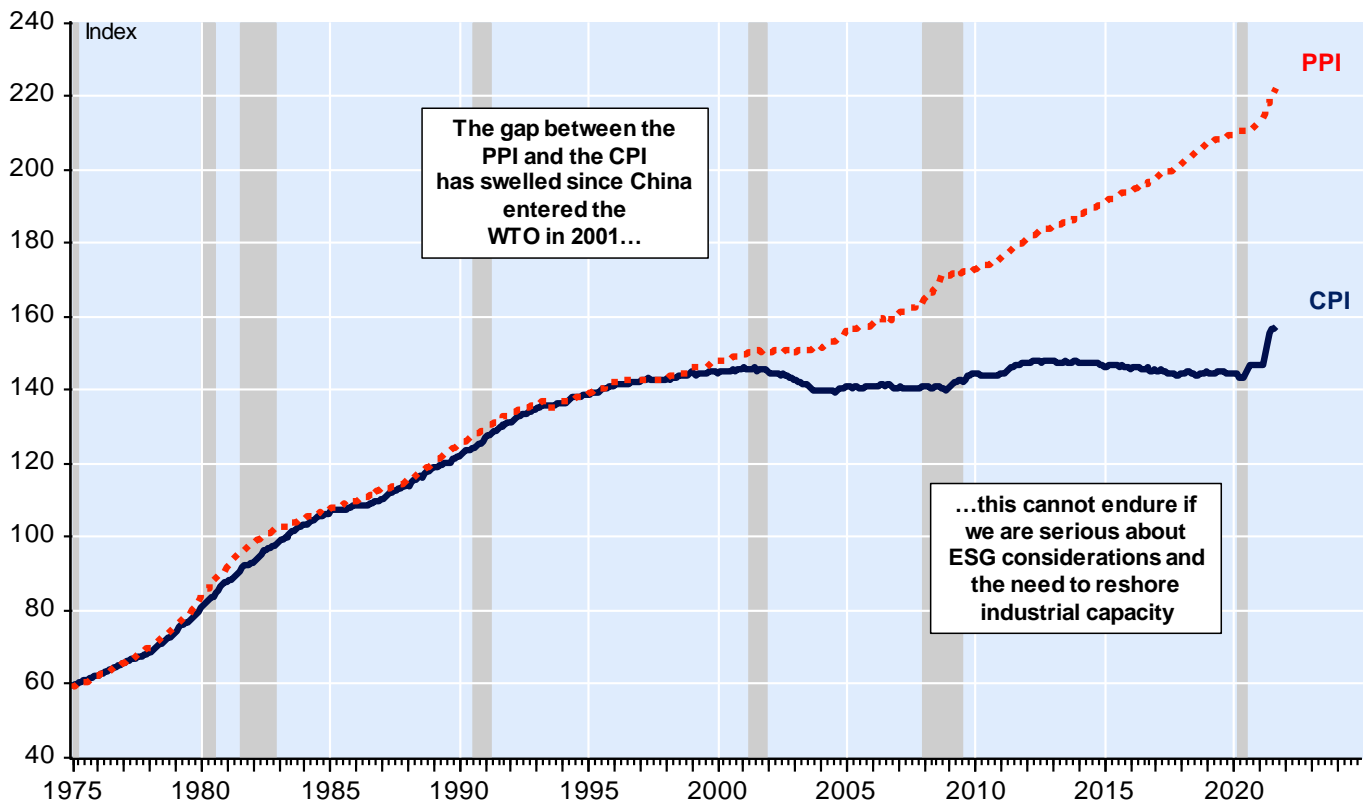
World Watch

By Stéfane Marion

Most OECD central banks have yet to abandon their assertion that CPI goods inflation is transitory and that things will return to normal once the global supply chain normalizes. Our latest Bank of Canada [preview](#) argues that Tiff Macklem will again stick to this scenario at the next interest rate announcement (Oct. 27). But what if consumer goods were mispriced before the pandemic? As today's Hot Chart shows, the gap between the U.S. PPI for core finished goods and the CPI for core consumer goods has widened dramatically after China joined the World Trade Organization in 2001. While OECD producers have moved up the value-added chain by offshoring production to the Middle Kingdom without regard to ESG issues, consumers have enjoyed unprecedented price stability for two decades. Even if the global supply chain unclogs, we doubt very much that we will return to this environment. For one, China wants to decarbonize its economy, which means selling its products at a higher price. For another, the pandemic has highlighted the need for OECD economies to reshore some of their goods production capacity. The transition to this new normal could have a material impact on CPI. In the U.S., closing the gap with the PPI would imply a 40% increase in the CPI for core goods (~21% of the CPI basket). We recognize that this may seem extreme and that this gap will not be closed overnight. Yet even a 2% upward trend in the CPI goods would be a major break from the past.

World: What is the new normal for the CPI goods?

U.S. CPI for core consumer goods vs. PPI for core finished goods



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