



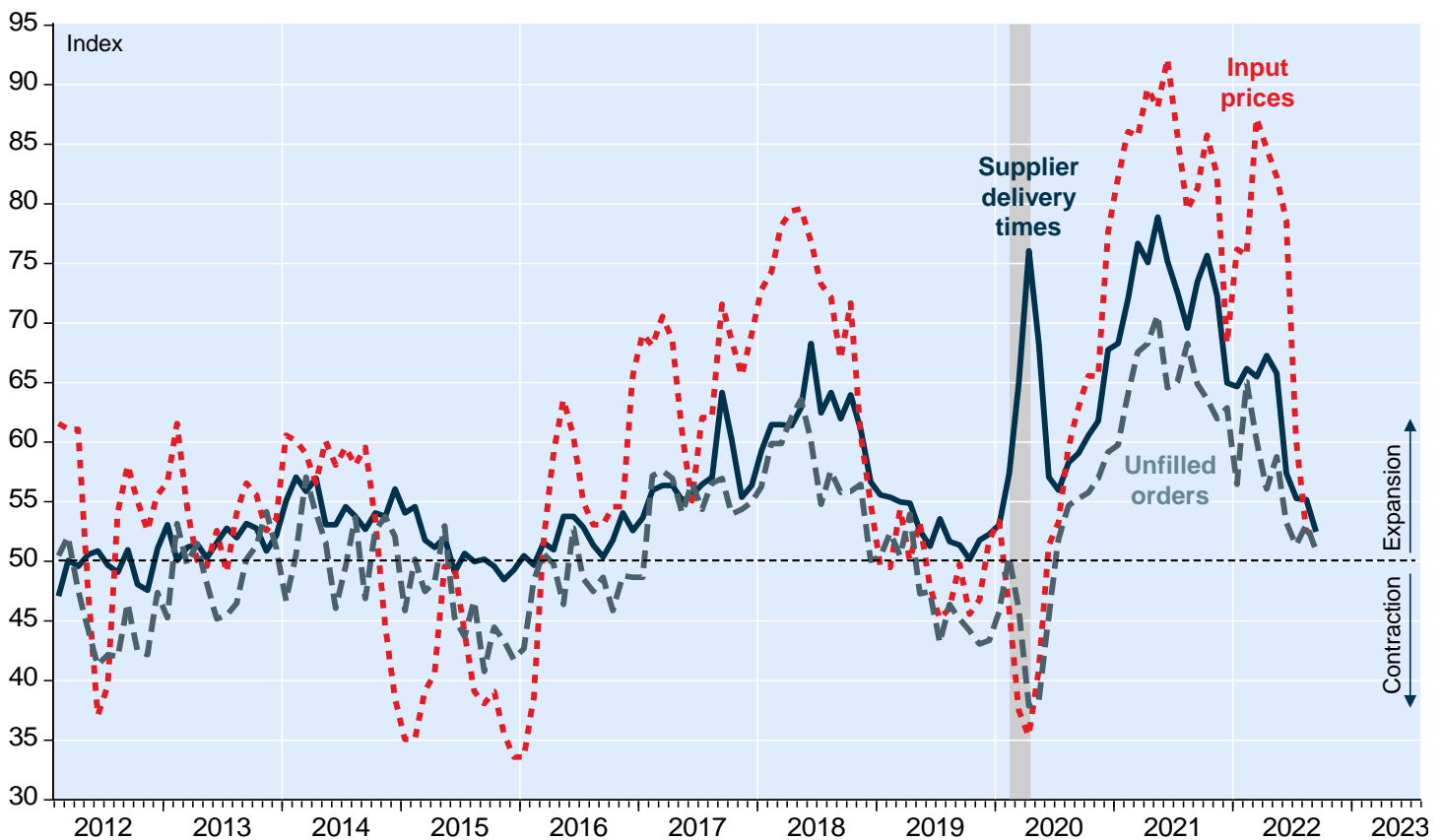
U.S. Watch

By Jocelyn Paquet and Warren Lovely

Given the FOMC's fixation on inflation, the PCE inflation data published on Friday was not particularly reassuring. The core price index rose a steamy (and above-consensus) 0.6% month-over-month in August and continued to hover around 5% on 3, 6 or 12-month trailing basis ([see our note](#)). Unlike in Canada—where seasonally adjusted core inflation measures have shown important signs of moderation—U.S. consumer price inflation momentum hasn't rolled over. This presumably keeps the Fed on edge. Still, we think U.S. inflation will be brought to heel quicker than many believe. As detailed by the San Francisco Fed, supply-driven factors once again made an outsized contribution to August core PCE inflation. But these constraints now seem to be disappearing fast as demand fades, global transportation costs plunge, and Chinese production gets back on track. As today's Hot Chart shows, these developments are beginning to make themselves felt in the U.S. manufacturing sector, with the ISM supplier delivery times sub-index at its lowest level since before the pandemic and input prices registering their smallest progression since June 2020. In due course, this will translate into much weaker goods inflation. Price hikes in the services sector could remain stronger for longer but would not be immune to a marked slowdown in the job market. On this topic, the ISM report signaled a fourth decline in factory employment in the past 5 months, as unfilled orders fell to levels insufficient to justify bigger payrolls.

U.S.: Supply chain constraints a thing of the past

ISM Manufacturing PMI





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