Inflation Nation (Second of a Series)

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We continue our special series on inflation speaking with Nuveen's chief investment strategist, Brian Nick.

Brian, there's a lot of attention being paid by markets to inflation risk. Is this warranted?

"Prices of certain goods and services in the U.S. are rising for a variety of reasons, all of which we believe to be transitory. The main takeaway from April's CPI report was that inflation is going to peak at a higher level this year than we thought. But the details confirm our long-held belief that this "bump" could be over before the end of the summer.

"We should focus on core prices, because the headline number is distorted by the fact that energy prices were extremely low a year ago, even negative in some cases, if you recall. But even setting that aside, last month's 0.9% rise in core consumer prices is a very high number. And, as a matter of fact, despite some panic gas buying in the Southeast recently because of a pipeline shutdown, energy prices actually did not affect April inflation one way or the other.

"What did contribute was a combination of stimulus, reopening pressures (see our *Chart of the Week*) and supply chain shortages. The rise in used car prices, believe it or not, accounted for almost half of the 0.8% increase. Used cars are at the nexus of two inflationary forces: well-stimulated U.S. consumers and supply chain crunches delaying production and delivery of goods like new cars. Consumers deployed their $1,400 to make large purchases in what was already a supply-constrained environment for many products like furniture and "recreation commodities", which includes televisions and audio equipment.

"We're also seeing consumers getting back to normal. In other words, they're going places and having fun. That sudden positive demand shock is affecting airfares, hotel rates, and car insurance premiums as prices rise back to where they were pre-pandemic."

How long should we expect these unusual pricing shifts to continue?

"At least into the summer. Many reopening industries have still not raised prices back to their pre-pandemic peaks. More supply in these areas (more available seats in stadiums, more flights) may take some pressure off. While many households still have untapped savings to spend from the stimulus check, goods price inflation should slow as consumers tilt their consumption more toward services. Interestingly, "big ticket" items in the CPI basket (e.g. shelter, health care and education) are showing few signs of price pressure. In fact, there are no signs of truly broad-based inflation, at least not yet."

Brian, you discussed with us back in March the distinction between inflation and reflation.

"Yes, it's good to remember we are in an economic boom. Corporate earnings and personal incomes have surged and seem set to climb further. That protects the economy pretty well against a moderate one-off increase in inflation. The psychological effects of higher prices in this or that industry aren't likely to spread to the wider economy so long as consumers don't feel like their incomes and savings are being eroded away. That's not happening yet and doesn't seem likely to anytime soon."

Next week we continue to look at the inflation question with a former White House economist.