

November 28, 2022 – Economic Commentary

There is mounting evidence that global inflation has peaked. Decelerating price increases or outright price declines are primarily witnessed in wholesale/producer prices which may account for as much as half of the unusually sharp rise in inflation this year; service sector prices are expected to follow, perhaps less dramatically. The growing commentary on this development places some pressure on the US Federal Reserve to justify another 75bps rate hike in December, while other central banks are more clearly likely to slow their monetary tightening given the economic weakness being seen outside the US. For the moment – and in contrast to the current thinking by many equity investors—the still-high level of inflation argues for little change in Federal Reserve policy. It is also notable that even Fed governors who may favor smaller increases still appear to support a 5% “terminal” Fed Funds rate in 2023. Nevertheless, there are increasing signals that economies, and monetary policy, are at something of an inflection point as the year comes to a close. 2023 is likely to be quite different from 2022.

An additional note about energy markets, particularly in oil markets: Watch Out. The oil price cap proposed by developed nations seeking to limit energy price increases negatively impacting their populations, while Russia benefits are potentially quite disruptive to market dynamics. As has been demonstrated post-Ukraine invasion, the fine choreography between energy producers, shippers and buyers is often underappreciated for its delicacy. This is a development that will warrant close monitoring for the application of the Law of Unintended Consequences.

Data to Watch:

1. US Case-Shiller Home Price Index for September, released Tuesday, November 29
2. Third quarter estimates of US PCE deflator, released Wednesday, November 30
3. US Nonfarm payrolls and unemployment rate for November, released Friday, December 2

Suggested Reading:

[‘Collapse’ in home prices is coming, experts say](#)

[Xi’s costly obsession with security](#)

[Employers rethink need for college degrees in tight labor market](#)

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