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Chart 1:

Pandemic inflation was a textbook response to coincident supply and demand shocks ...
... With the resulting equilibrium price setting on the inelastic part of both supply and demand curves as a result:

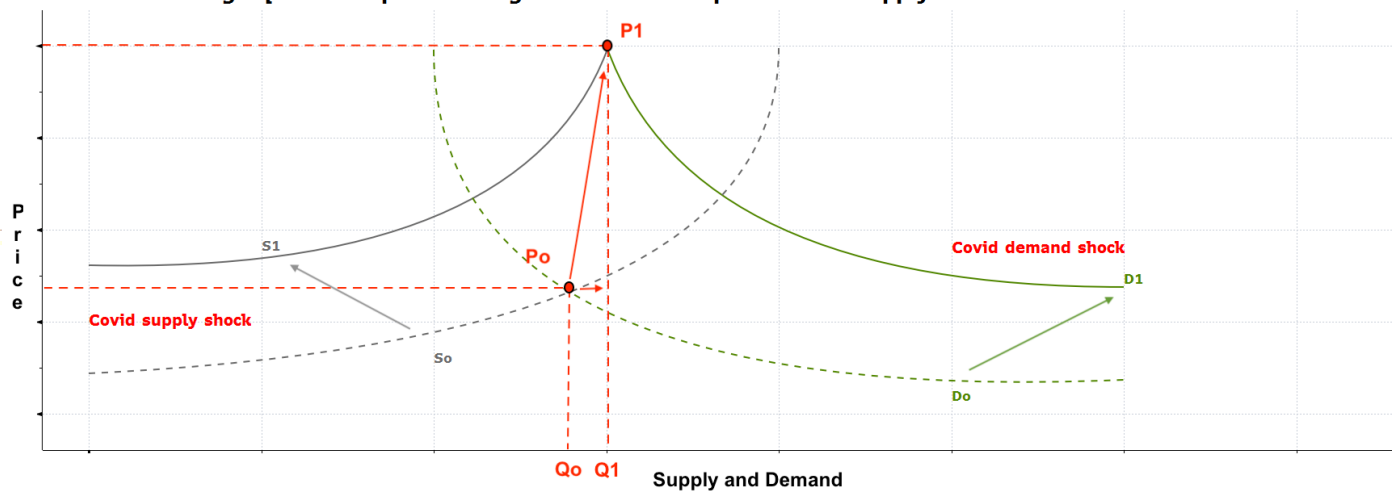
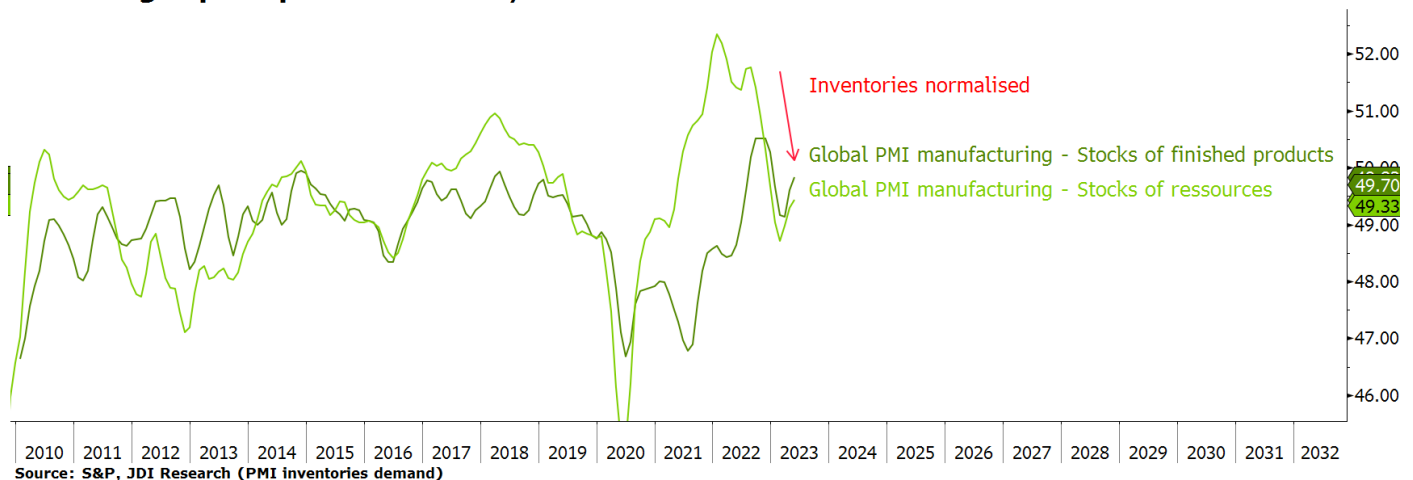


Chart2:

Following a post-pandemic feast, excess inventories had to drain down:



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Chart3:

Commodity prices collapsed thanks to weak underlying demand...

... And a resorption of the global geopolitical premium:

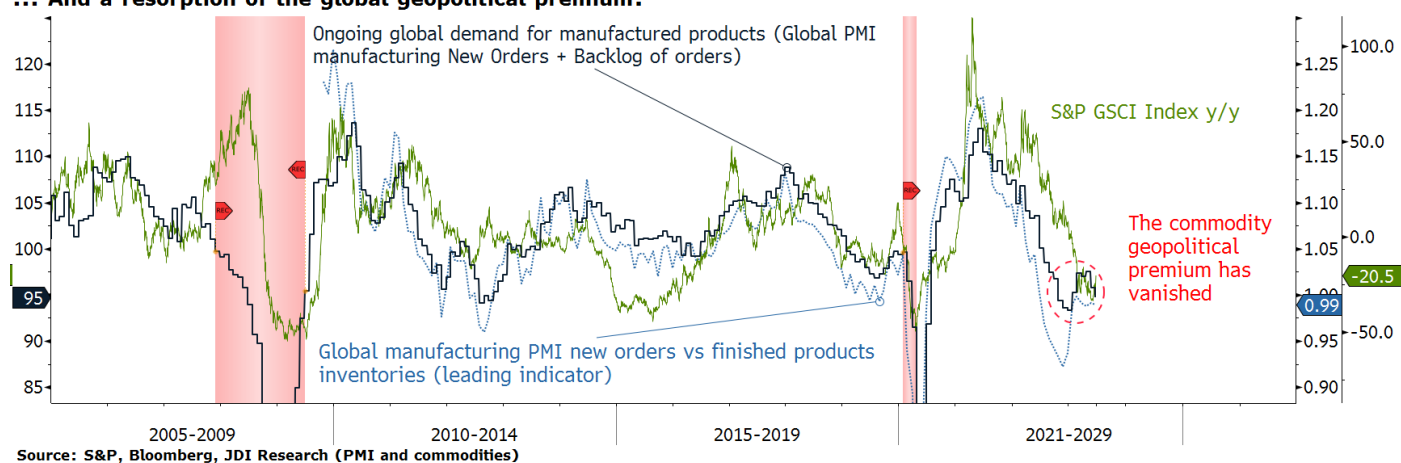
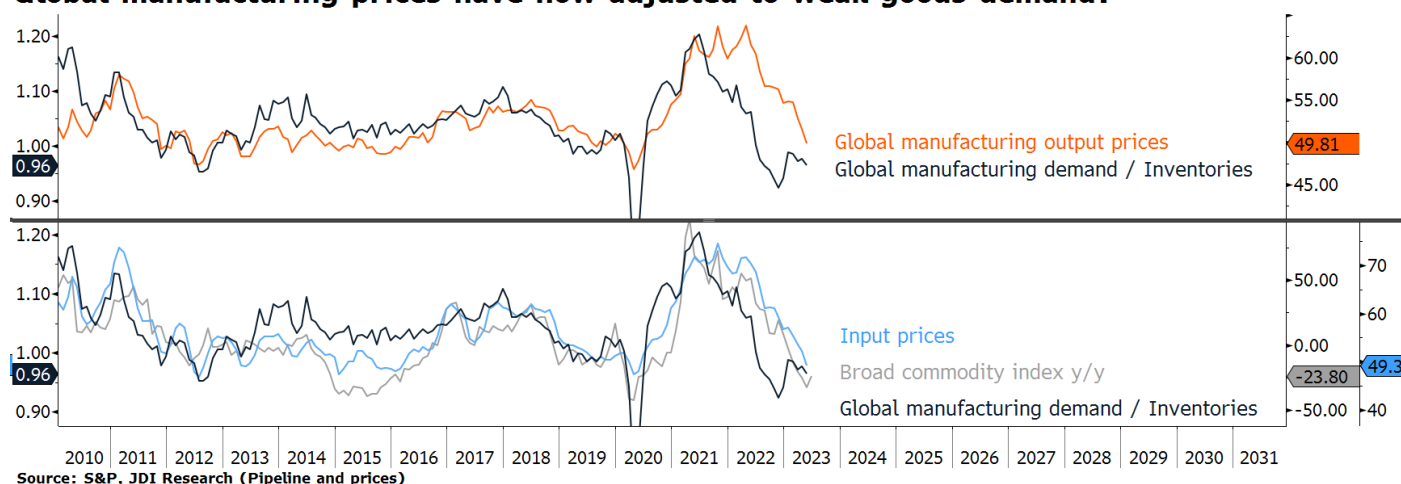


Chart 4:

Global manufacturing prices have now adjusted to weak goods demand:



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Chart5:

Underlying inflation is showing tentative signs of trending down...

... Headline is headed to target:

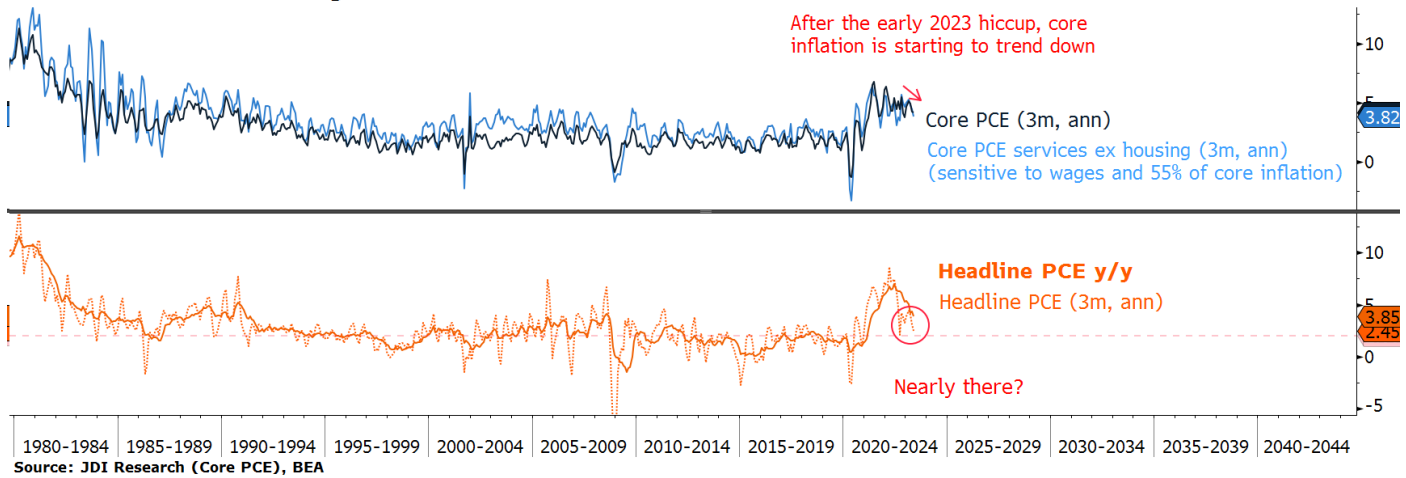
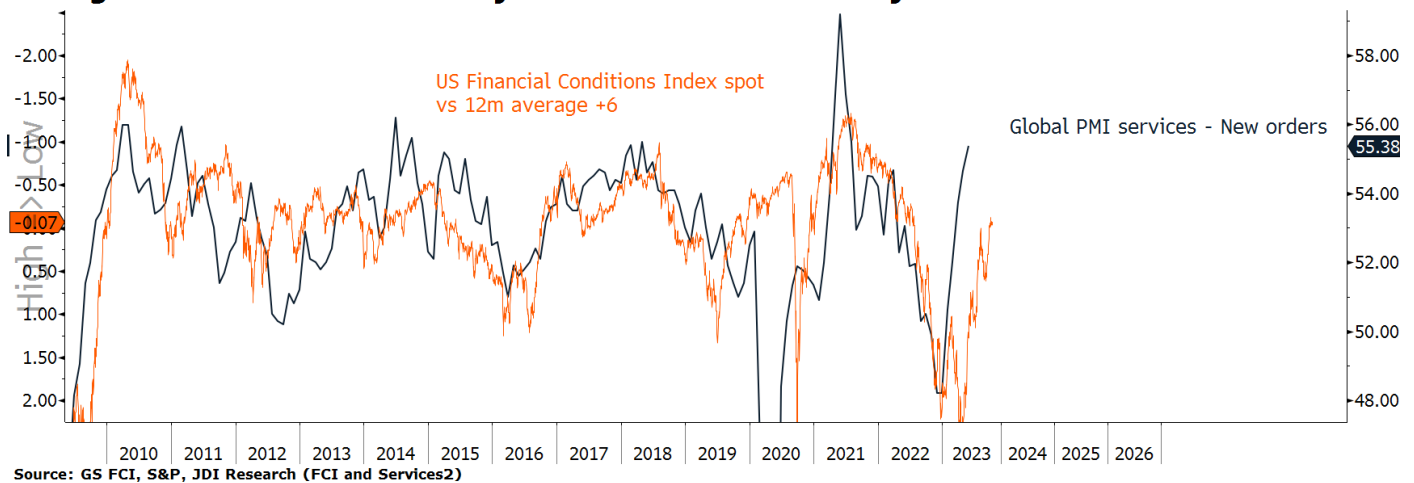


Chart6:

Easing Financial Conditions buoyed services demand this year:



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Chart7:

The bond market is no longer sending recessionary signals...
... with FFR vs 2yr UST yield at a benign -35bps (from -150bps in March):

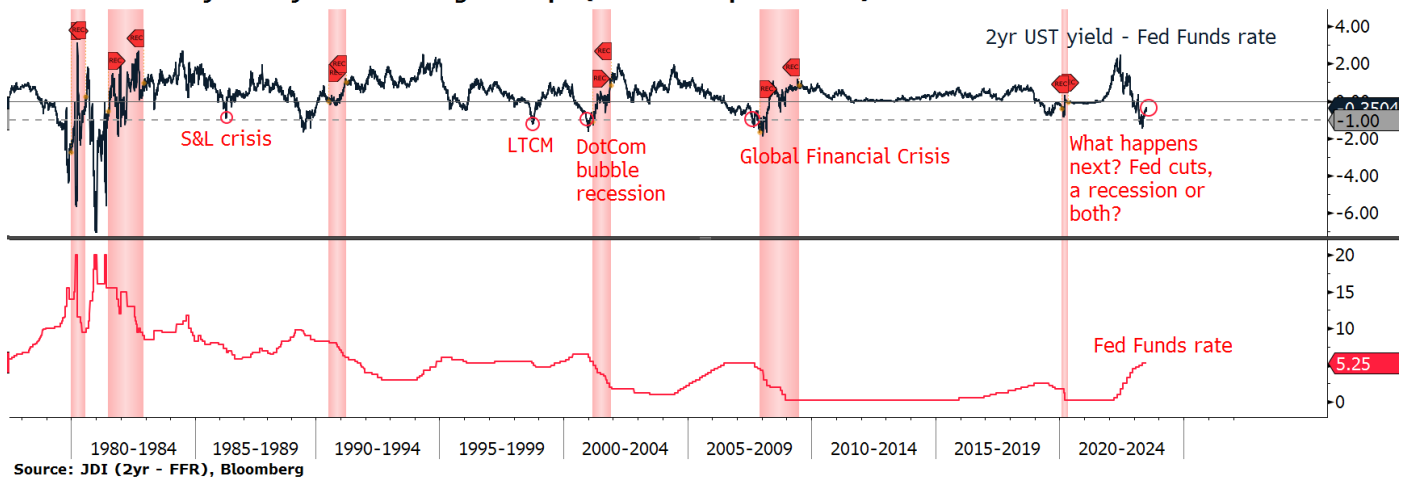
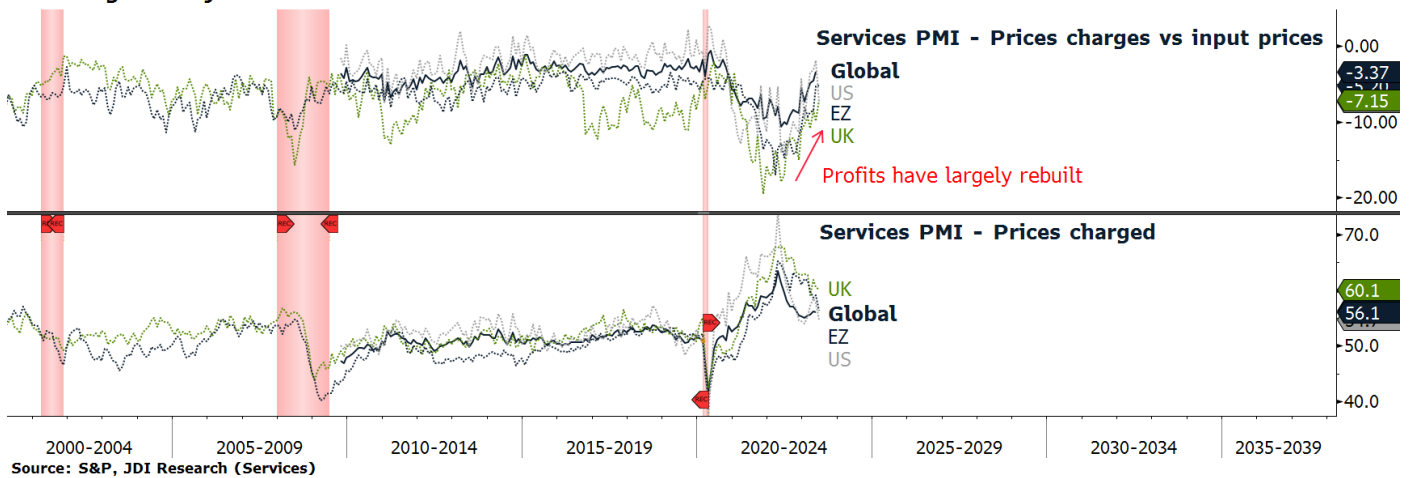


Chart8:

The negative profit shock has largely dissipated...
... Paving the way for continued disinflation:



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Chart9:

Services resilience has allowed firms to rebuild profits with sticky output prices to date...
... But the June flash PMIs show demand cracks, which should result in renewed disinflation:

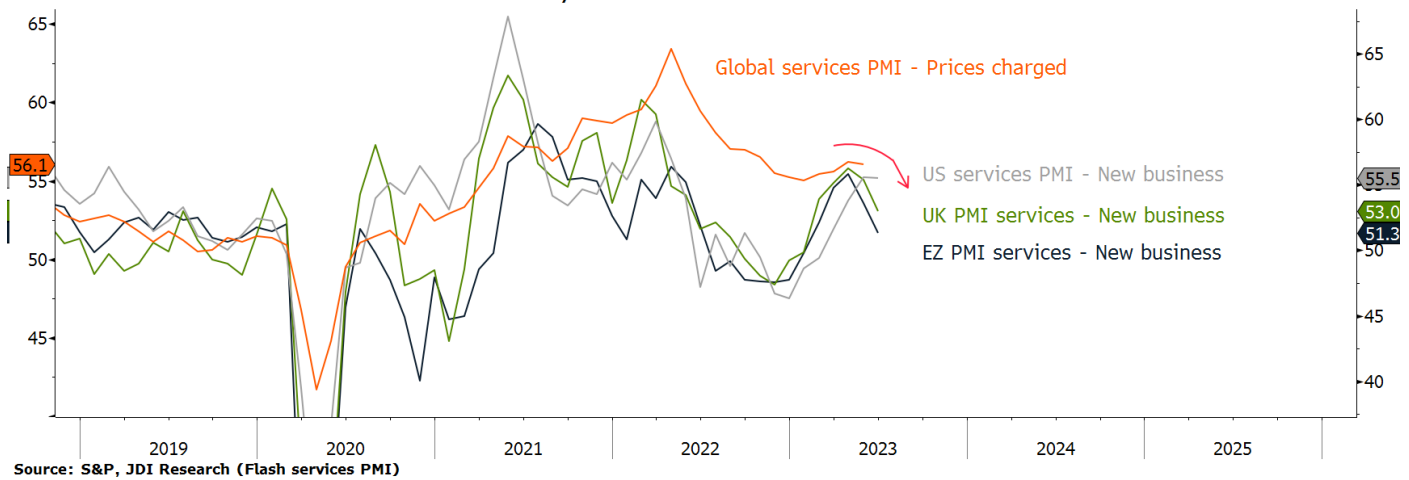
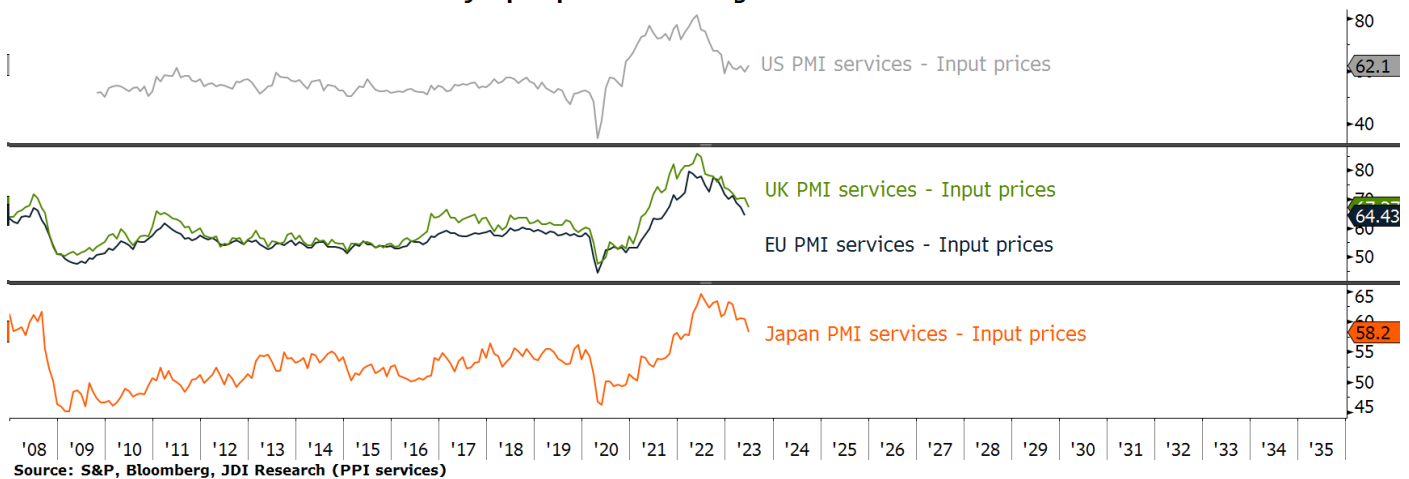


Chart10:

Services providers face sticky input prices in the form of wages:
... Cost burdens remain far above surveys' pre-pandemic averages:



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Chart11:

Retiring boomers are permanently damaging labour supply:

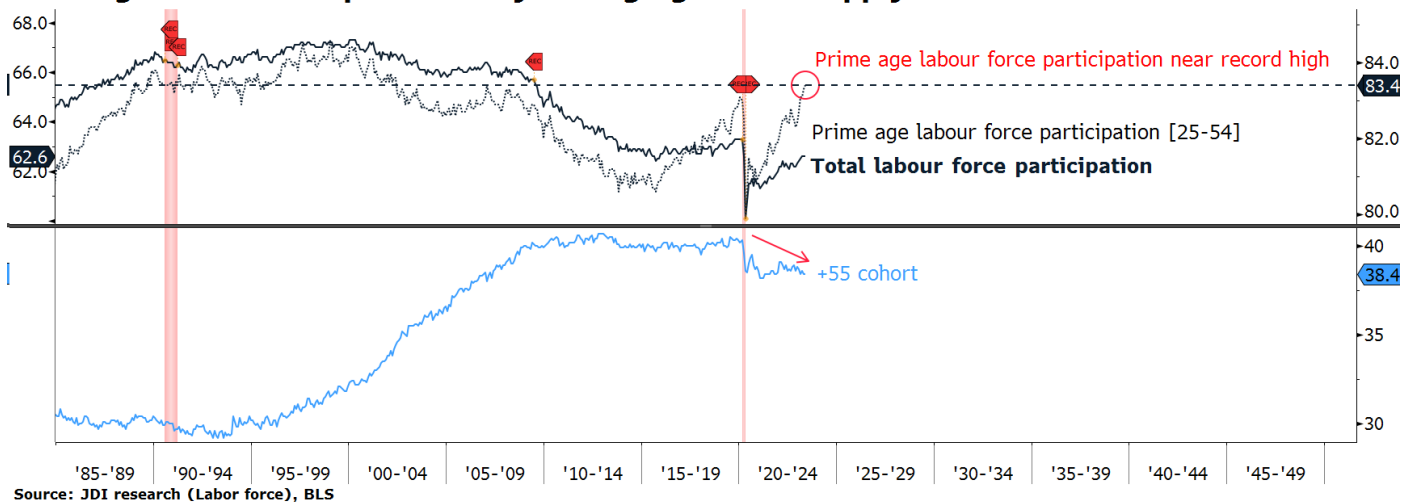
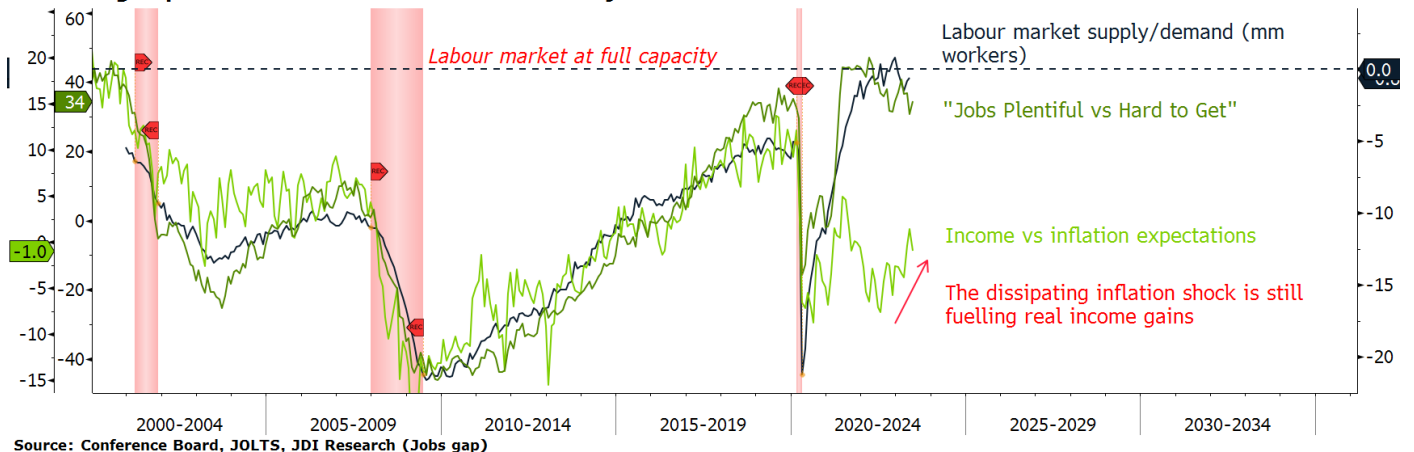


Chart12:

Labour markets are structurally tight fuelling hopes of a continued real income recovery:



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Chart13:

The old-age to working-age population ratio will explode...
... It is happening now!

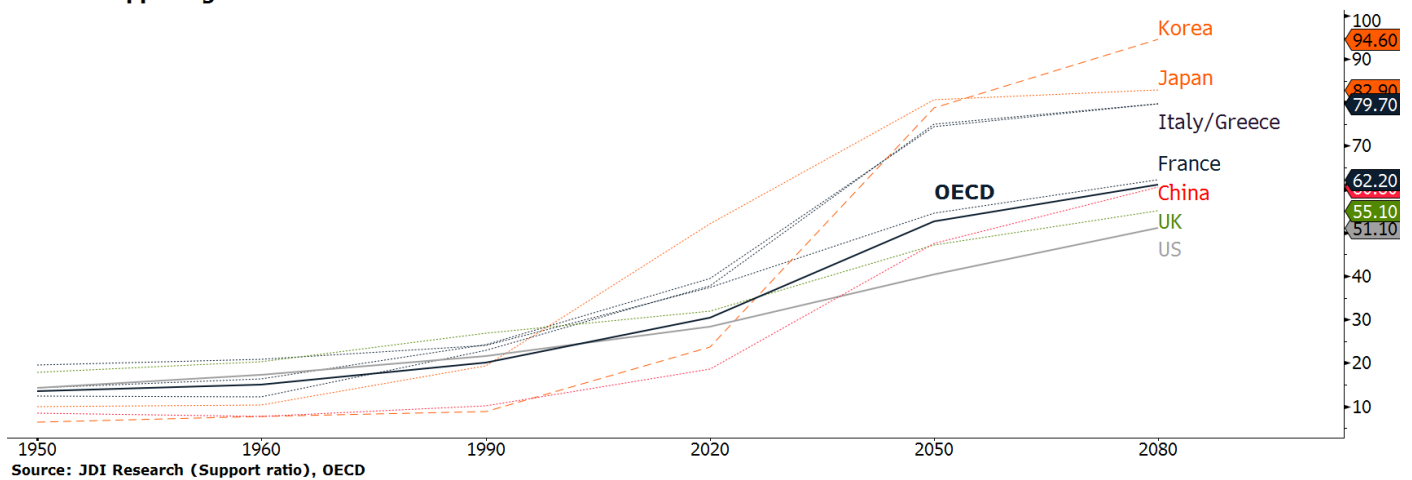
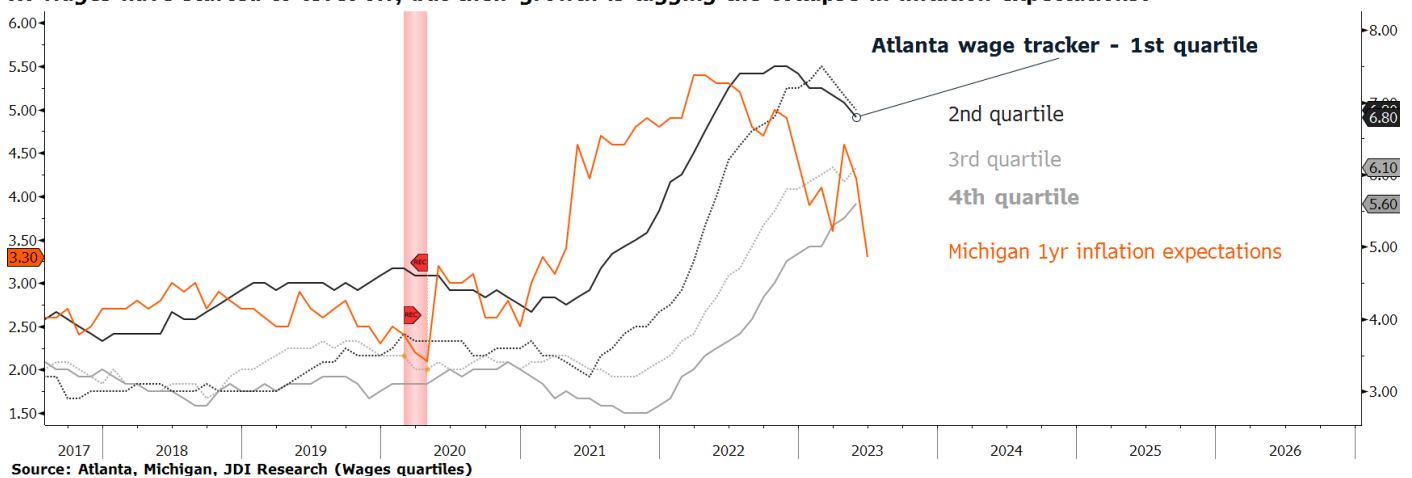


Chart14:

A continued economic sweet spot:
... Wages have started to level off, but their growth is lagging the collapse in inflation expectations:



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Chart15:

Euro-area wage gains should level off in H2:

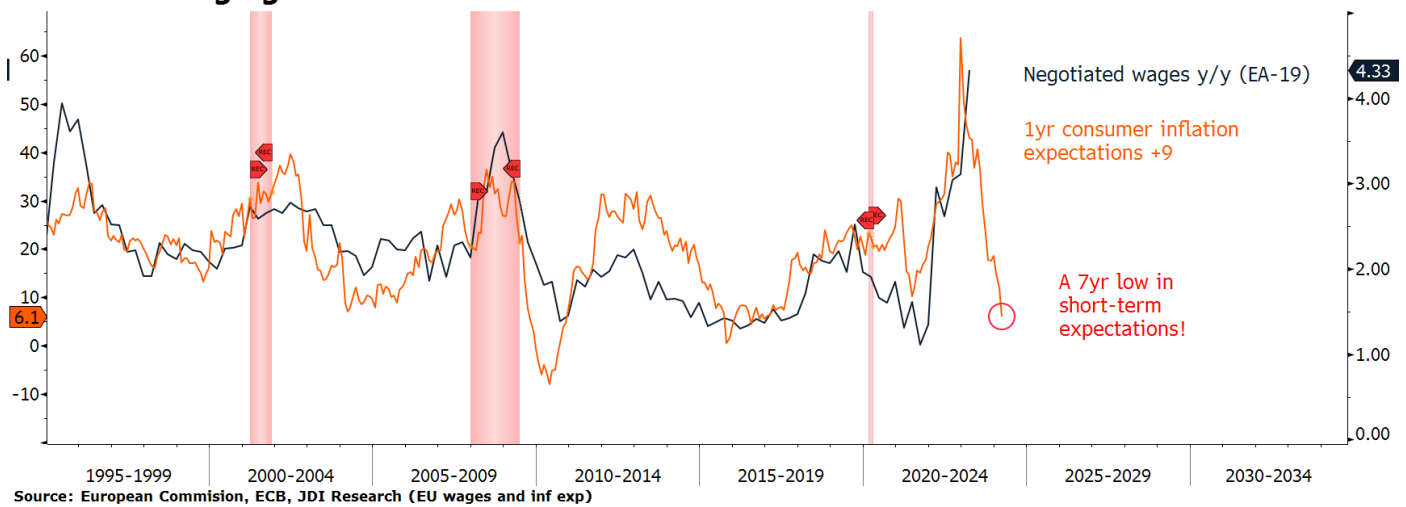
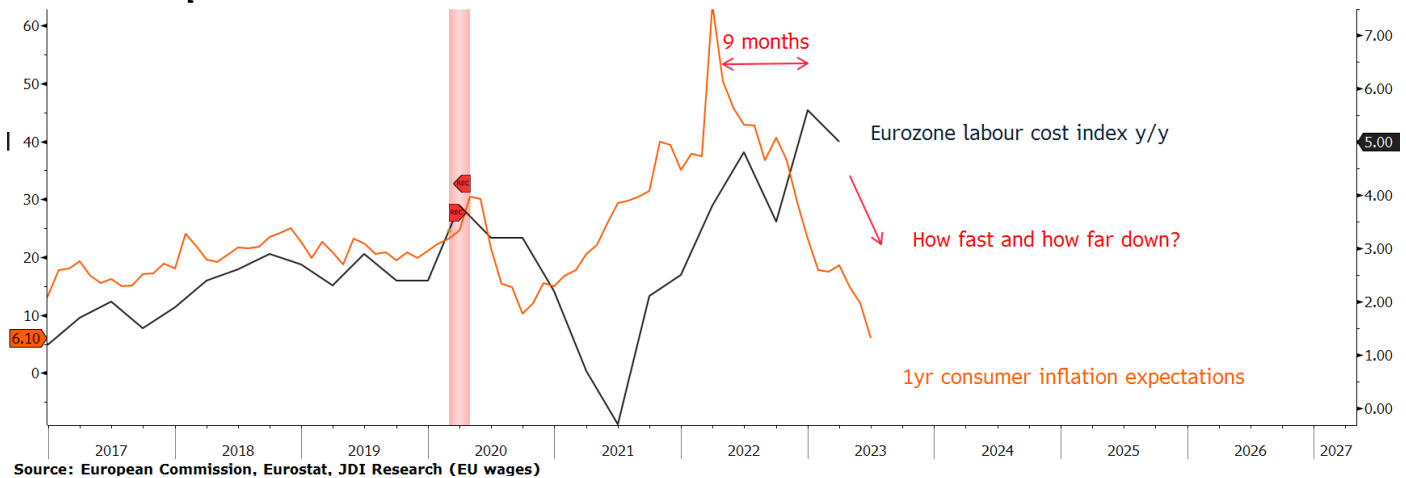


Chart16:

In Europe, wage growth is also naturally lagging inflation expectations:

... The crucial question is how fast and far it now falls?



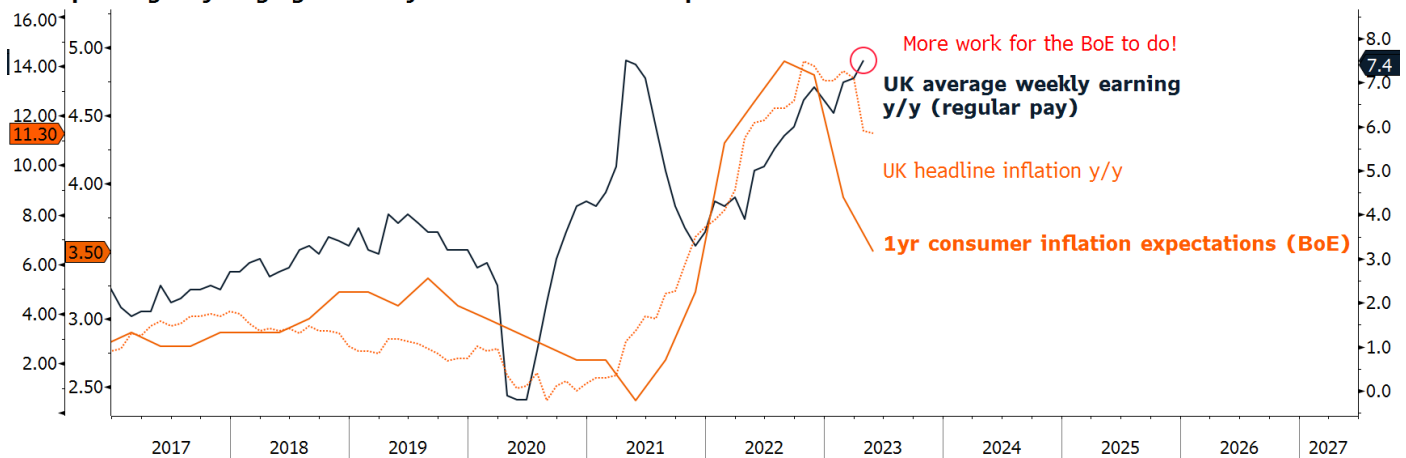
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Chart17

In UK, persistently strong realised inflation threatens a wage-price spiral...

... Explaining why wage growth is yet to follow inflation expectations lower:

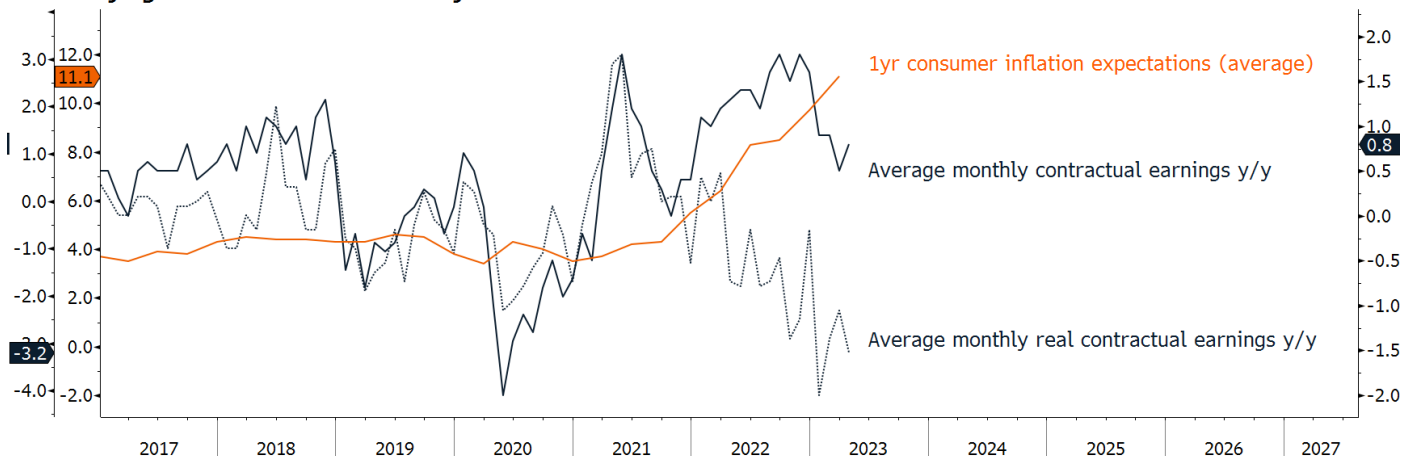


Source: BoE/Ipsos inflation attitudes survey, ONS, JDI Research (UK wages & inflation exp)

Chart18:

Japan sees no second-round effects from wages...

... Justifying the BoJ's dovish monetary stance:



Source: BoJ, JDI Research (ja wages & inflation ex)

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Chart19:

The strength of the labour market promises further real earnings gains:

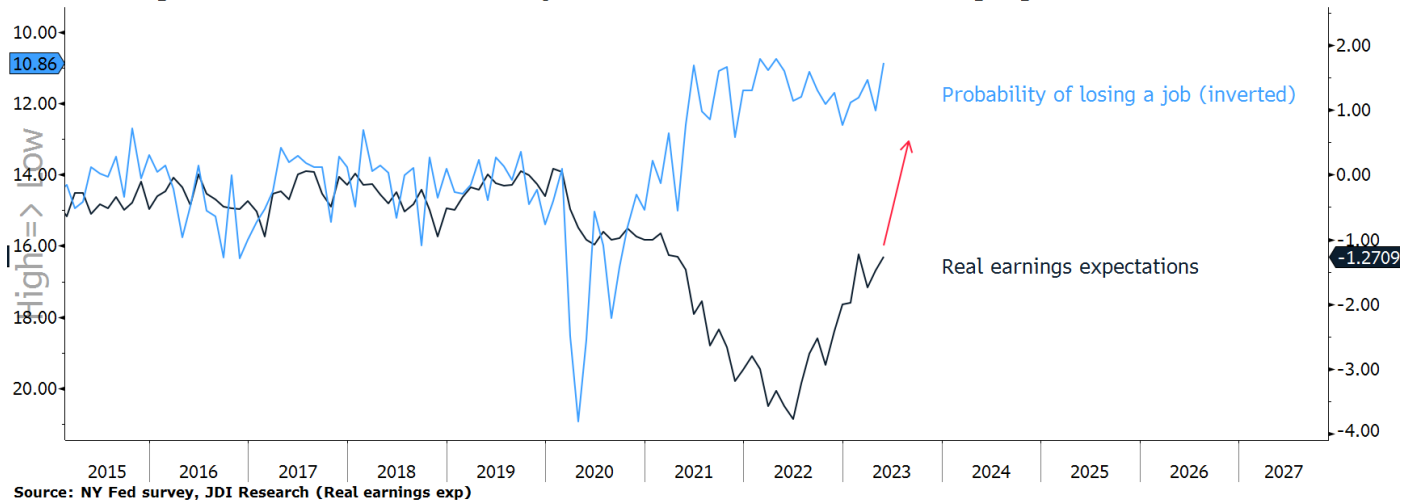
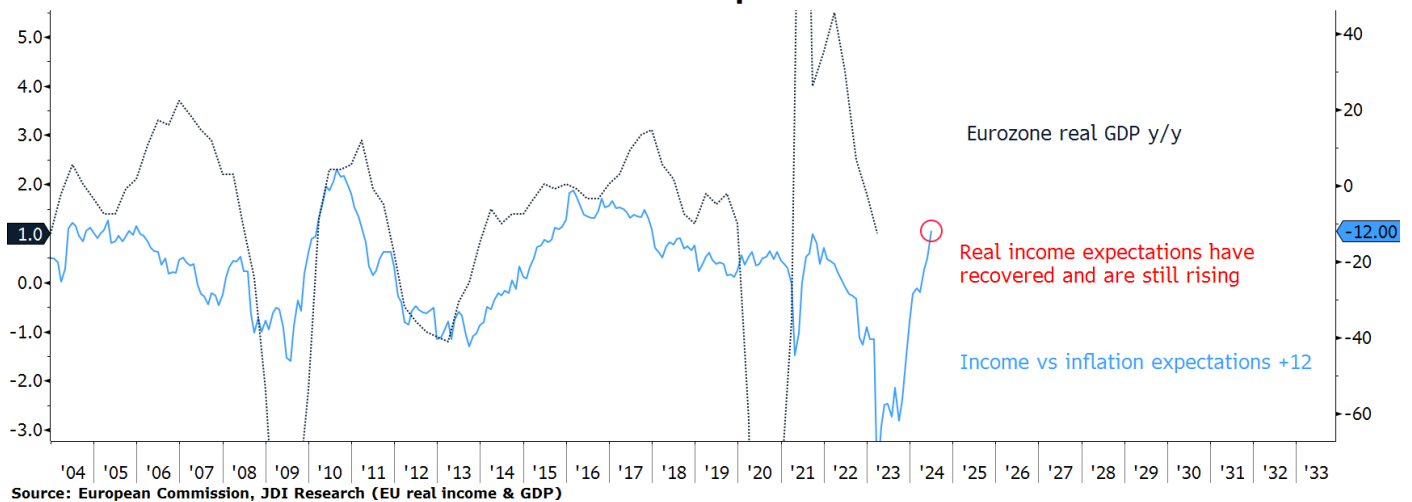


Chart20:

The Eurozone continues to heal after the 2022 price shock:



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Chart21:

Due to a firm preference for fixed mortgages in the US...

... The effective rate on outstanding mortgages sharply lags today's mortgage rate:

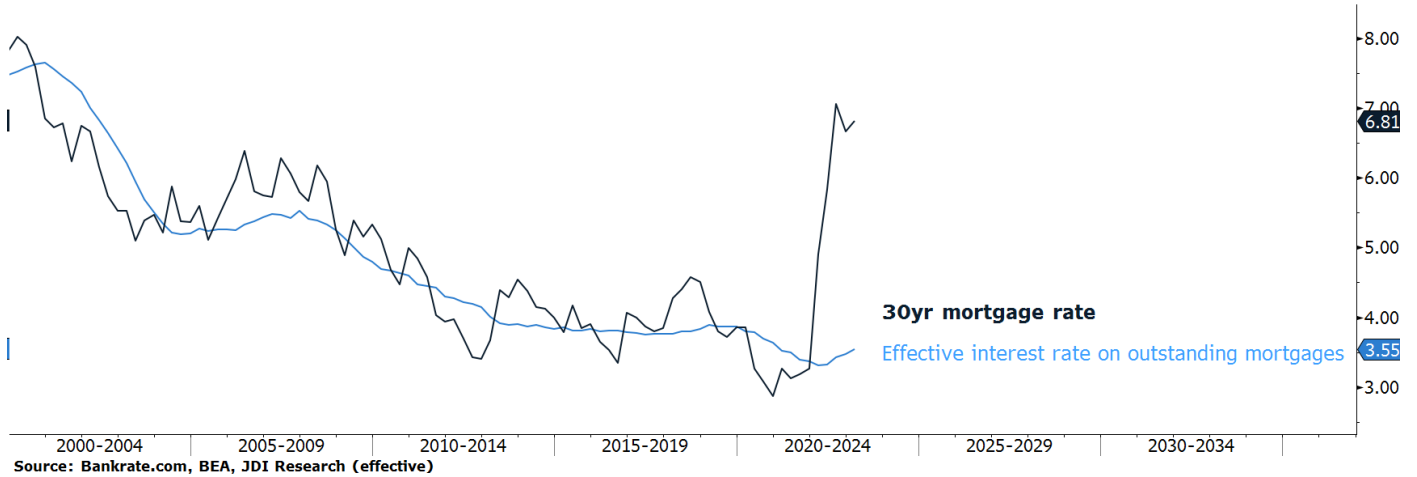
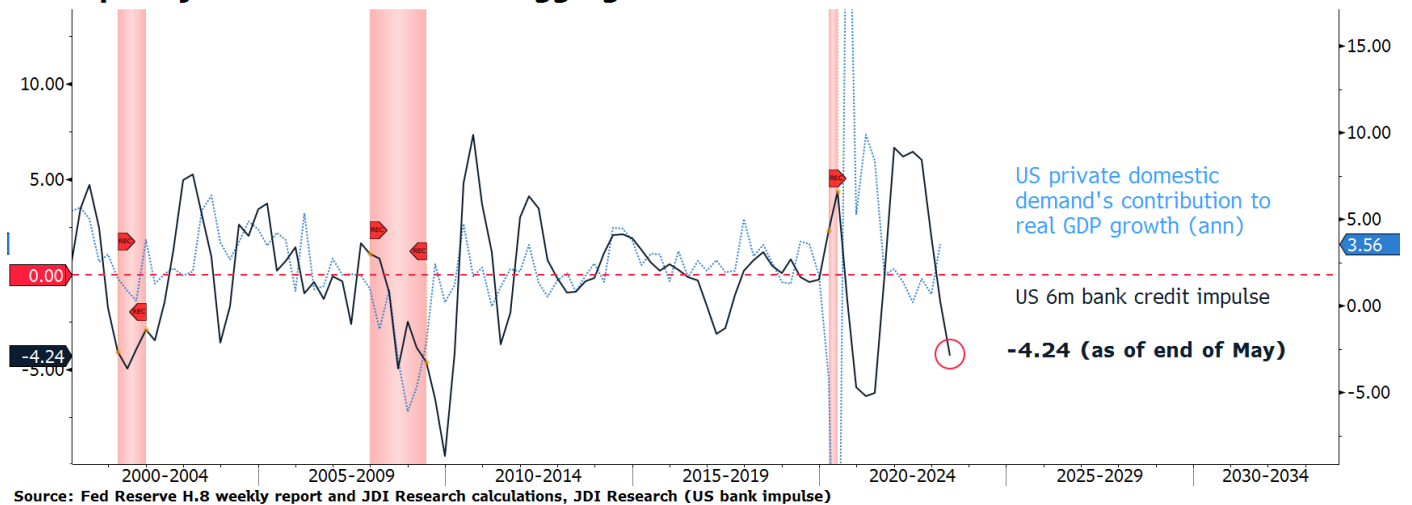


Chart22:

A temporary disconnect between aggregate demand and credit :



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Chart23:

No need for the Fed to rock the boat yet...

... real wages are still consistent with the 2% inflation target:

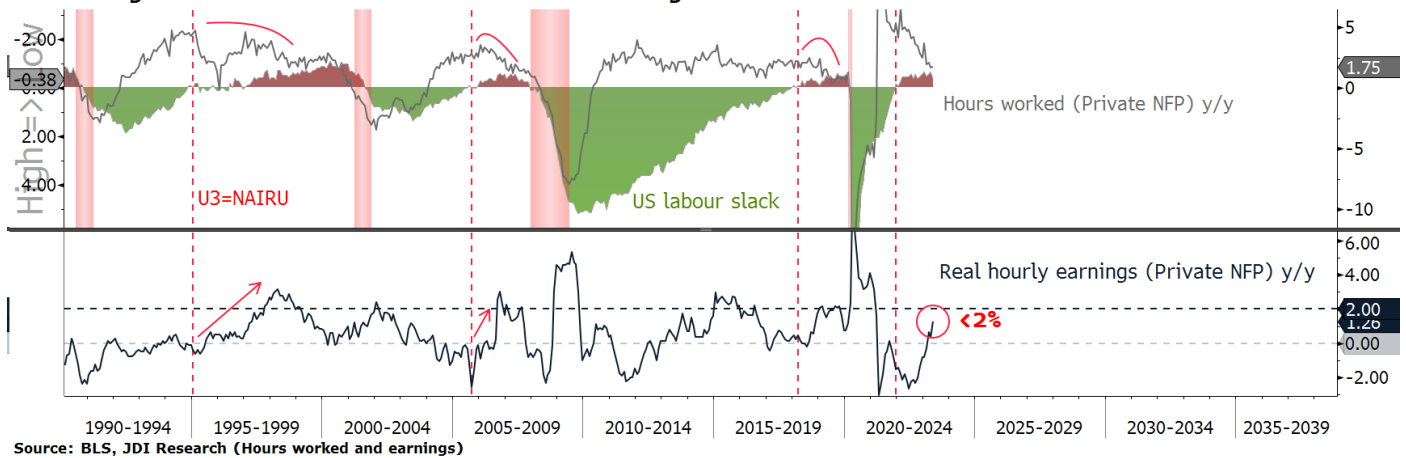
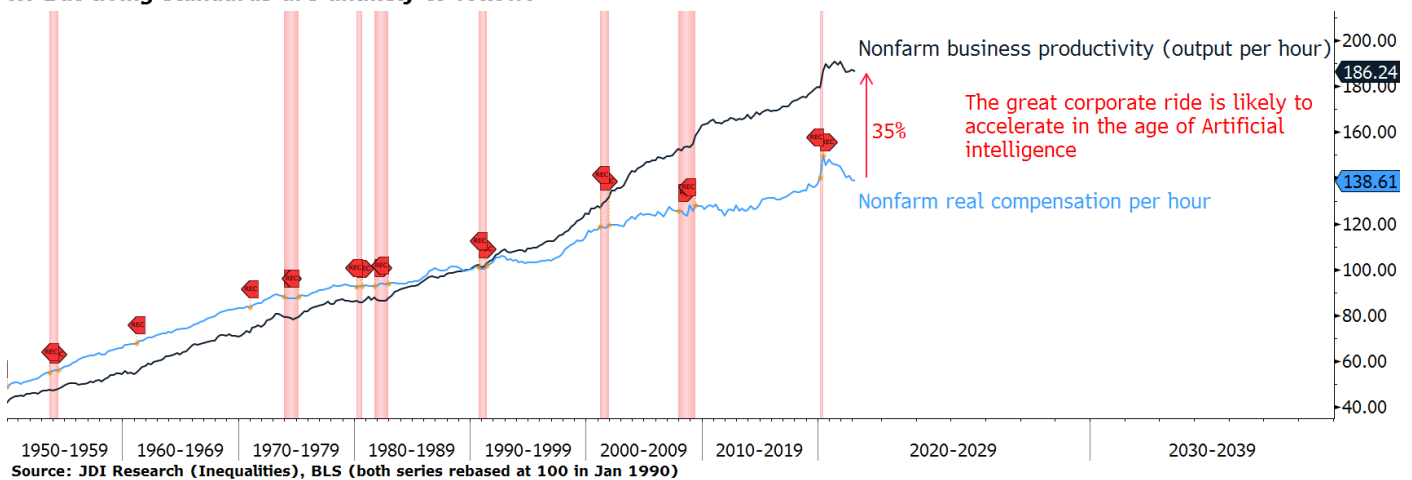


Chart24:

A tech-driven productivity revival may finally be on the way...

... But living standards are unlikely to follow:



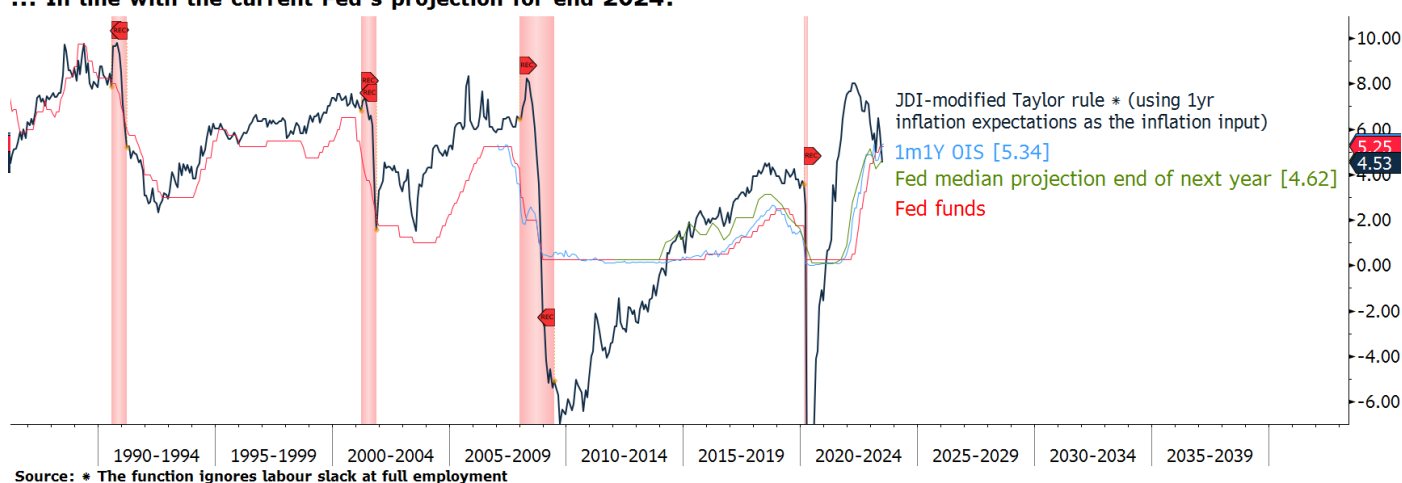
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Chart25:

Falling inflation expectations push JDI's Taylor rule to prescribe 75bps of cuts...
... In line with the current Fed's projection for end 2024:



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