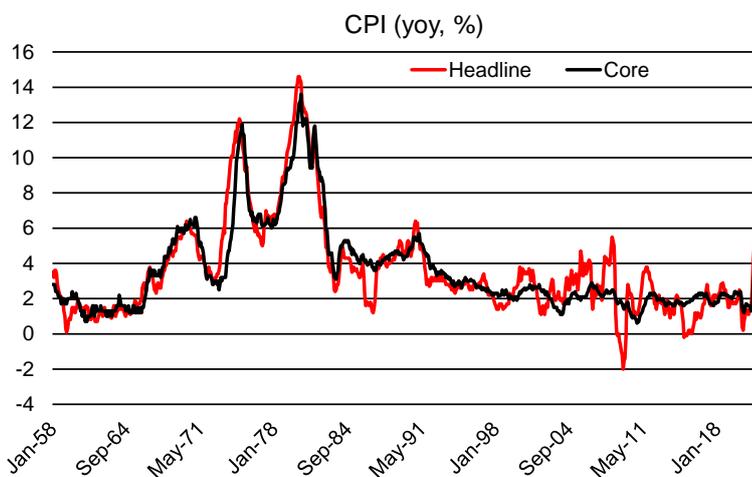


## US inflationary pressures intensify

- US CPI inflation surprised to the upside and hit a 40-year high (chart 1), rising to 7.5% yoy (UniCredit and Consensus: 7.3%) from 7.0% yoy in December. While a high year-on-year figure was widely expected given the spike in consumer prices that was recorded in the preceding eleven months, what's more concerning is that short-term inflationary pressures remain more intense than anticipated. On a monthly basis, instead of inflation easing to 0.4% mom (as we and consensus had predicted), headline inflation was 0.6% mom in January, matching the rate from December. Also core inflation, which excludes volatile energy and food, accelerated to 6.0% yoy in January from 5.5% yoy in December, and rose 0.6% mom, matching the December rate.

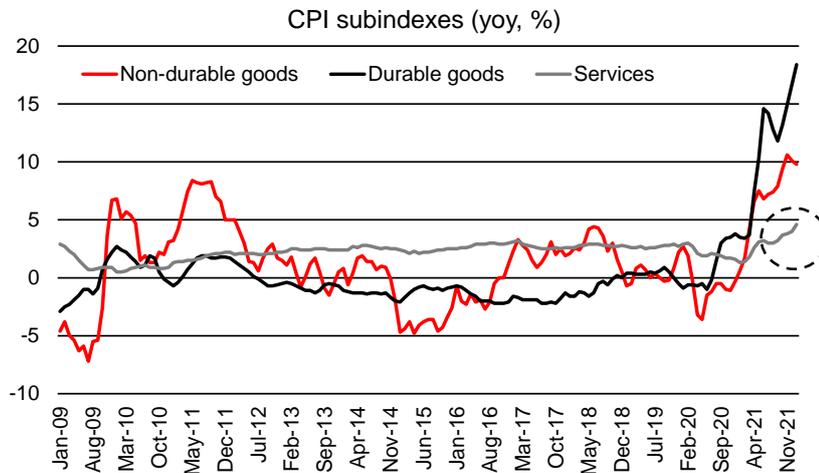
CHART 1: GOING UP



Source: BLS, UniCredit Research

- The January inflation report confirms that inflationary pressures are broadening. In the first phase of the recovery, demand for goods, both durable and especially non-durable, increased substantially as a result of the shifts in spending-patterns that was induced by pandemic-related restrictions and fear of contagion that prevented American consumers from purchasing a variety of in-person services. A burgeoning demand for goods, coupled with supply bottlenecks of a different kind, pushed prices up. Now, inflation for durable goods is gradually declining, down to 9.8% yoy from 10.1% (chart 2), but with social life gradually normalizing despite the emergence of the Omicron variant, and wage growth accelerating, inflation for services is rising (up to 4.6% yoy from 4.0%).

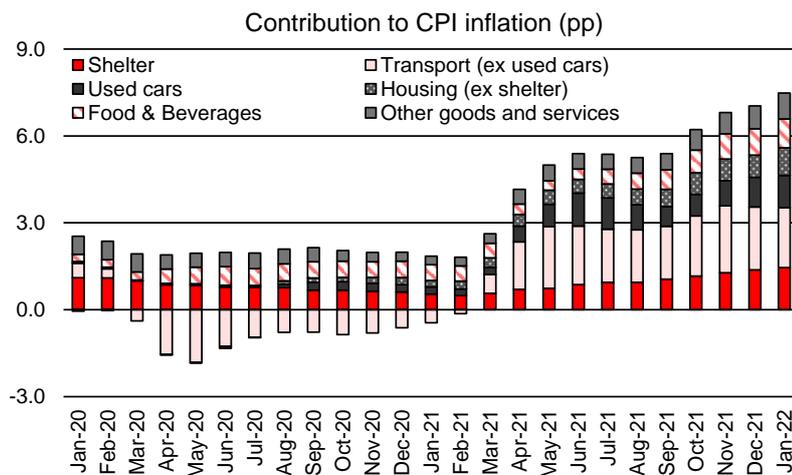
**CHART 2: INFLATIONARY PRESSURES BROADEN**



Source: BLS, UniCredit Research

- Prices across a broad range of goods and services increased in January (chart 3): electricity, food, rents, used cars, clothing, medical care and airfares, among many others. Quite encouraging though, new car prices remained unchanged, whereas those for used cars increased at a slower pace, pointing to easing supply shortages. In the coming months, we expect new and used car prices to start to fall, unwinding some of the big price rises in previous months. Shelter, instead, deserves special attention. It was up 0.3% mom, but it was dragged down by lodging away from home (-3.9% mom) as a result of the spread of the Omicron variant that forced Americans to stay at home in January. Rents were up a very strong 0.5% mom, reflecting the strength of the housing market and supported by higher wage growth. Owners' Equivalent Rent was up a strong 0.4% mom. As we pointed out in an **Economics Flash** about surging house prices in the US, the shelter component of the CPI reacts with a lag to changes in market prices (both rents and house values) both for technical reasons (the way the subindex is constructed) and practical reasons (renters will only encounter higher prices when it comes to moving or renewing their leases).

**CHART 3: SHELTER KEEPS INCREASING**



Source: BLS, UniCredit Research

- All in all, January's CPI report paints a picture of strong and broadening inflationary pressure. We believe the year-on-year headline CPI inflation rate is close to – or at – its peak, as base effects turn negative, energy price inflation eases, and supply bottlenecks improve. However, these figures, combined with a very tight labor market, will liven up the debate at the Fed on whether a more aggressive monetary policy move is needed to counter higher-than-expected inflationary pressures. For now, we still expect the Fed to deliver a 25bp rate hike in March, but the risk of a larger, 50bp, move then is growing.

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