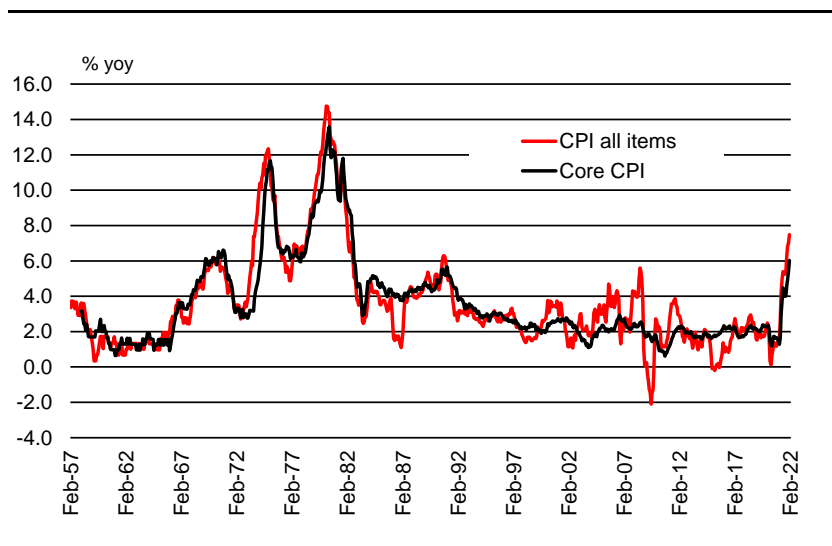


US CPI inflation: Still to peak, but soon

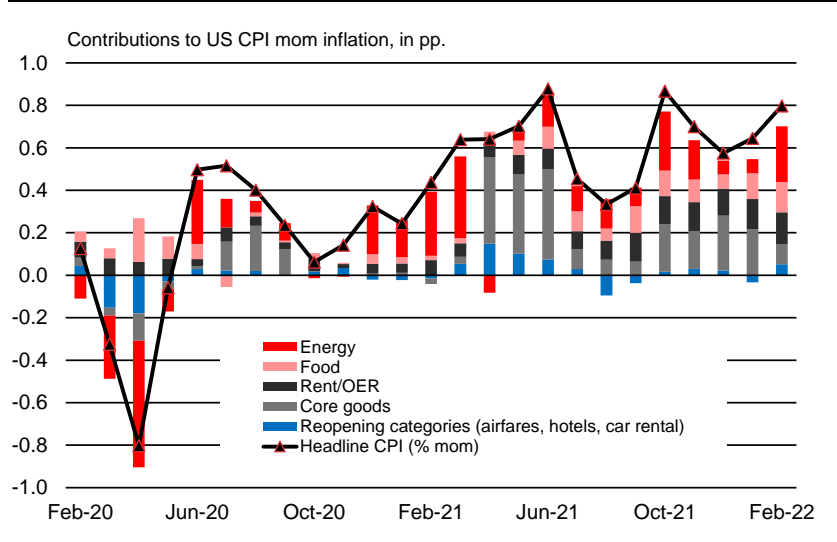
- The US Consumer Price Index (CPI) rose 0.8% mom in February, while core CPI (which excludes energy and food) rose 0.5% mom. Both were in line with our prior expectations. On a 12-month basis, headline CPI inflation rose to 7.9% yoy in February, a 40-year high (see Chart 1), up from 7.5% in January, while 12-month core CPI inflation rose to 6.4% from 6.0% in January.
- Price rises were again broad-based but were led by gasoline, food and shelter (Chart 2). Gasoline prices rose 6.6% mom, accounting for almost a third of the monthly rise in headline CPI and reflecting the rise in crude oil prices. Household food prices rose 1.0% mom and driven by a 1.4% mom rise in food at home prices amid rising wholesale prices. Rents increased at a rapid 0.6% mom rate in February, their fastest rate of increase since December 1987, while owners' Equivalent Rent (OER) rose a strong 0.4% mom. The acceleration in rents is something that needs to be watched closely, given that rents/OER account for around a third of the CPI basket and that their price movements tend to be sticky as rental contracts are changed infrequently. Due to the way rents are sampled in the CPI (resampling every six months), the index tends to lag other indicators such as the Zillow Observed Rent index (Chart 3), suggesting CPI rents will likely continue to rise strongly for a while yet.
- The rapid decline in new Omicron cases after the recent peak in mid-January, and the associated reopening of the economy, led to an increase in the prices of travel-sensitive items. So, hotel prices (or lodging away from home) rebounded 2.2% mom after falling a large 3.9% mom in January; airfares rose 5.2% mom after a 2.3% mom rise in January; and car and truck rental prices rose 3.5% mom after a 7.0% mom drop in January (see "reopening categories" in Chart 2).
- Used car prices are now falling (-0.2% mom) after rapid increases in recent months, and new vehicle prices rose 0.3% mom after being flat in January. Chart 4 shows that, judging by auction prices of used cars, prices have further to fall as supply-bottlenecks have eased somewhat and pent-up demand has waned.
- Russia's invasion of Ukraine has led to a sharp rise in commodities prices, particularly energy. The rise in crude oil prices means gasoline prices will surge in March, likely pushing the headline 12-month rate to above 8%. It should mark the peak, as negative base effects start to push down on the 12-month rate, but uncertainty is very high.

CHART 1: A 40-YEAR HIGH



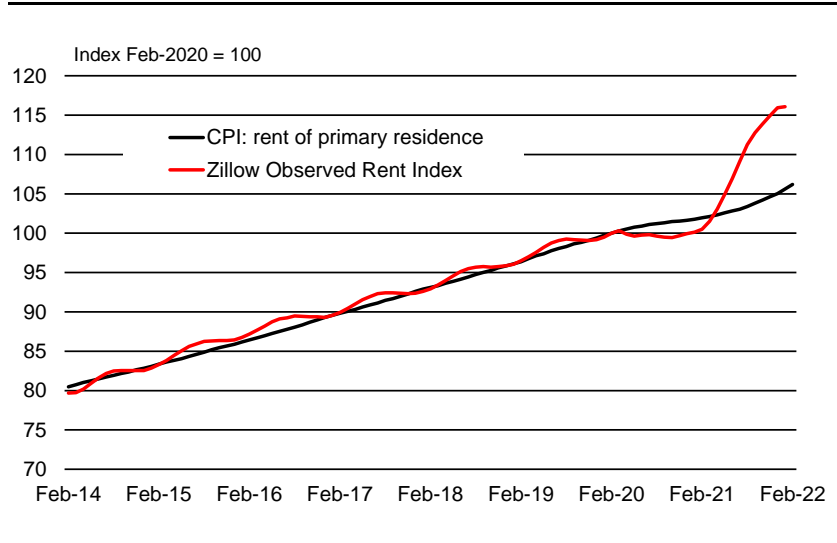
Source: BLS, UniCredit Research

CHART 2: LARGE PRICE RISES FOR ENERGY, FOOD AND RENTS



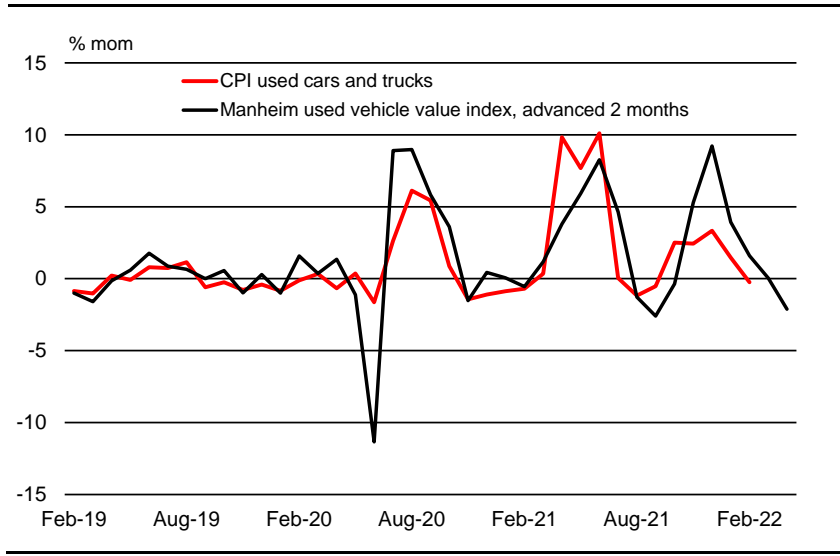
Source: BLS, UniCredit Research

CHART 3: RENTS WILL LIKELY CONTINUE TO RISE RAPIDLY



Source: BLS, Zillow, UniCredit Research

CHART 4: USED CAR PRICES ARE NOW FALLING



Source: BLS, Manheim, UniCredit Research

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