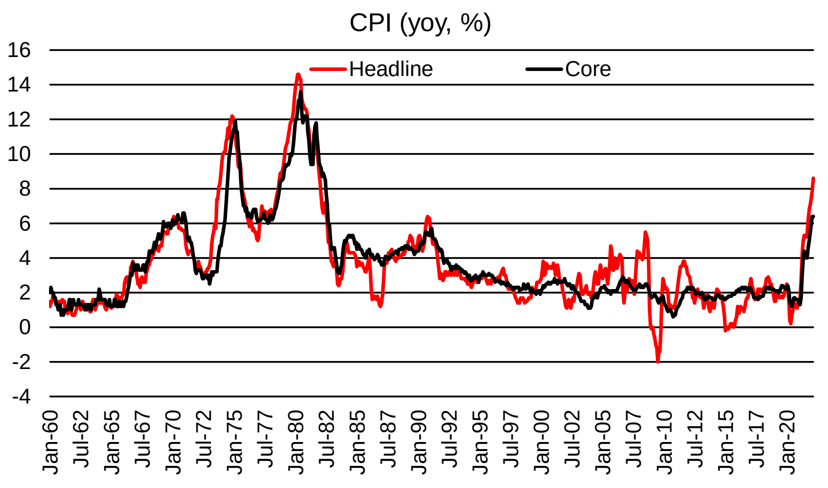
US CPI inflation close to the peak

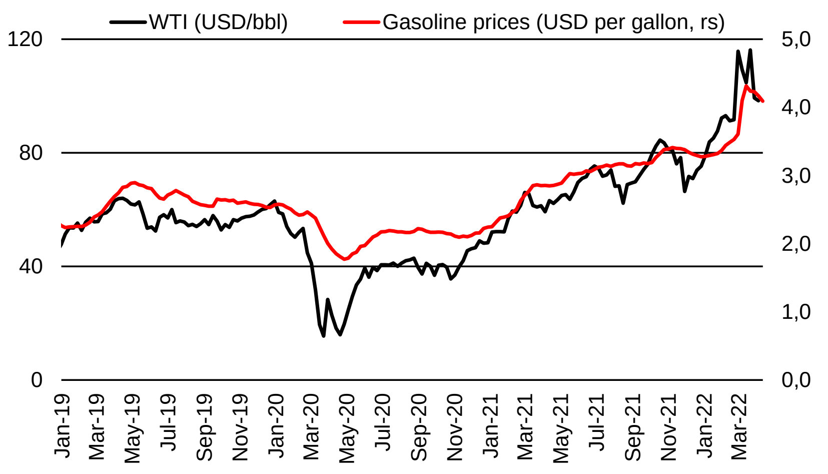
- US headline CPI inflation further accelerated in March, rising to 8.5% yoy from 7.9% yoy in the prior month. This is the highest rate of inflation since 1981 (chart 1). Despite the high degree of uncertainty, we judge inflation is likely at or very close to the peak, as base effects turn negative and gasoline prices have stabilized. On a monthly basis, the CPI index was up 1.2% mom after a rise of 0.8% mom in February.
- As a result of an almost full reopening of the economy, persistent supply bottlenecks and hot housing and labor markets, core CPI inflation increased further last month, rising to 6.5% yoy from 6.4% yoy, whereas on a monthly basis it decelerated to 0.3% mom from 0.5%. We expect core CPI to peak in yoy terms in the next month or so, with base effects driving it down as well as an easing in monthly core inflation rates.
- The largest contributions to monthly inflation were from energy, shelter and food. Gasoline prices alone added more than half (0.7pp) of the monthly rise in CPI, driven by the spike in oil prices that was triggered by the Russia-Ukraine conflict. Partly thanks to some relief measures adopted by the Biden administration over the last few weeks, including the release of strategic petroleum reserves, gasoline prices have come down somewhat this month and this will bode well for the April reading (chart 2). When it comes to rents, which rose another strong 0.4% mom in March, they will likely continue to contribute significantly to CPI inflation in the coming months (chart 3). 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).
- The largest downward effect came from used car prices (-3.8% mom). This is probably due to a combination of normalizing spending patterns in the aftermath of the pandemic and elevated gasoline prices (that reduce the incentives to use private cars), as well as some improvement in the supply of new cars. However, in general, the April reading showed a moderation in the prices of several core goods. This is symptomatic of consumer demand for goods that is cooling down, likely due to fading pent-up demand for goods, expenditure-switching from goods and towards services, a squeeze in real incomes, fiscal and monetary tightening, and low consumer confidence.
- Higher inflation is taking its toll on the purchasing power of workers, eroding the wage gains of recent months that were made possible by a tight labor market. Today, the BLS released also the real average hourly earnings that dropped by 2.7% yoy in March (chart 4), after having contracted by 2.5% in the previous month.
- The March CPI release is likely to strengthen the case for the Fed to hike by 50bp at its next meeting in May and expeditiously return monetary policy to a neutral setting, in order to defend against the risk that high inflation will have second-round effects, with workers asking for even higher pay raises that feed into production costs and on to consumer prices.

CHART 1: A FURTHER ACCELERATION



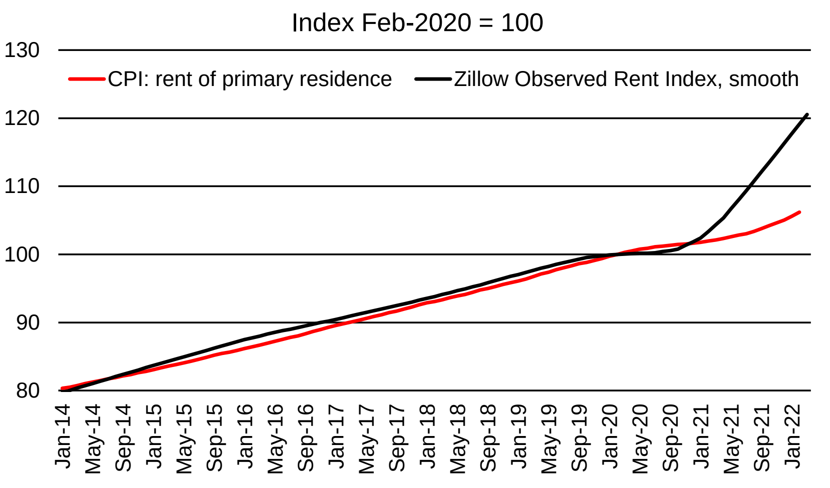
Source: BLS, UniCredit Research

CHART 2: DROP IN GASOLINE PRICES TO WEIGH ON INFLATION IN APRIL



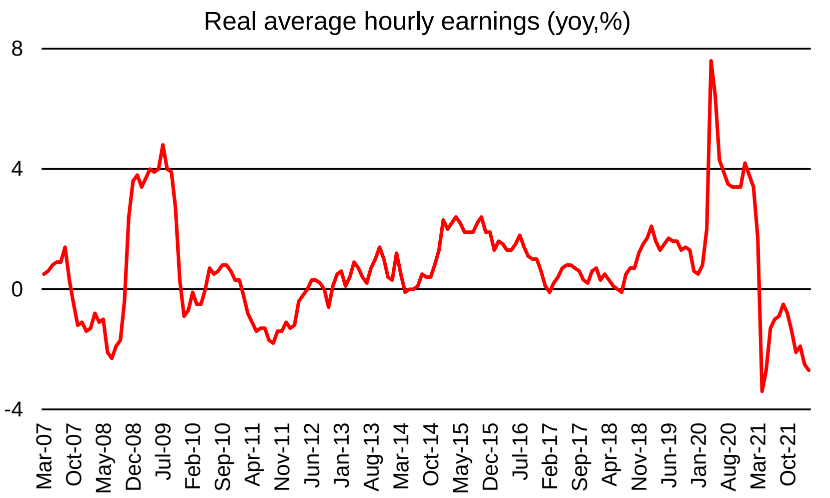
Source: Bloomberg, UniCredit Research

CHART 3: RENTS ARE LIKELY TO KEEP RISING



Source: BLS, UniCredit Research

CHART 4: ERODING WAGE GAINS



Source: BLS, UniCredit Research

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