

The U.S. Inflation Update

Economic Update | 13th January 2023

U.S. Inflation Cools Again

Event	Actual	Consensus	Previous
U.S. CPI Inflation YoY	6.5%	6.5%	7.1%
U.S. CPI Inflation MoM	-0.1%	0.0%	0.1%
U.S. Core CPI Inflation	5.7%	5.7%	6.0%

Highlights:

- The annual inflation rate in the U.S. slowed for a sixth straight month to 6.5% in December of 2022, the lowest since October of 2021, in line with market forecasts. It follows a 7.1% reading in November.
- Inflation seems to have peaked at 9.1% in June of 2022 but it still remains more than three times above the Fed's 2% target.
- The U.S. core consumer prices, which exclude volatile items such as food and energy, went up by 5.7% from a year earlier in December of 2022 compared to a 6.0% rise in the prior month and in line with market expectations.
- Energy cost increased 7.3%, well below 13.1% in November, as gasoline cost dropped 1.5%, following a 10.1% surge in November. Also, fuel oil cost slowed (41.5% vs 65.7%) while electricity prices rose slightly faster (14.3% vs 13.7%).
- A slowdown was also seen in food prices (10.4% vs 10.6%) while cost of used cars and trucks continued to decline (-8.8% vs -3.3%). On the other hand, the cost of shelter increased faster (7.5% vs 7.1%).
- Compared to the previous month, the CPI edged 0.1% lower, the first decline since May of 2020 and beating forecasts of a flat reading.
- The latest data confirms that inflation is finally being tamed, which means there's a higher chance that the Federal Reserve will pursue less aggressive interest rate hikes.
- The next FOMC meeting of the U.S. Fed is scheduled on January 31 – February 1 and the markets are expecting a 25 basis points hike in rates.
- There is an anticipate in the market that the labour market and inflation data have moderated to the point where the central bank will be compelled to suspend rate increases before their May meeting. The U.S. unemployment rate fell to 3.5% in December 2022. However, the Fed has already indicated that the terminal federal funds rate may surpass 5% and that a rate cut is only likely to occur in 2024.

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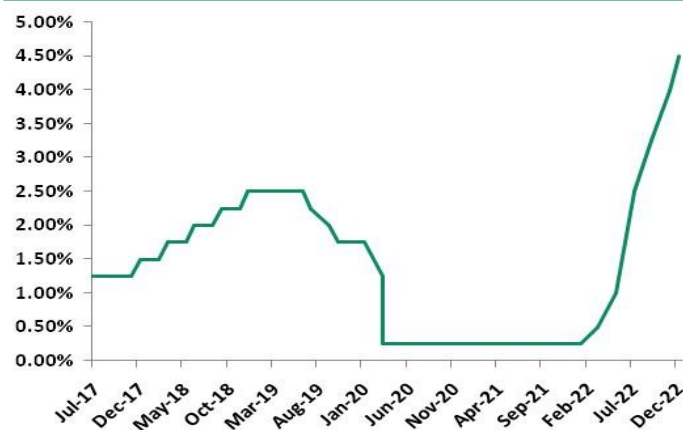
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Fig 1: U.S. CPI and Core CPI Inflation Trend YoY%



Soure: U.S. Bureau of Labor, SMIFS Research

Fig 2: U.S. Interest Rate Trend



Soure: U.S. Bureau of Labor, SMIFS Research

Tab 1: U.S. CPI Inflation Table

	Weights	MOM			YOY
		Oct-22	Nov-22	Dec-22	Dec-22
All Items	100	0.4	0.1	-0.1	6.5
Food	13.37	0.6	0.5	0.3	10.4
Food at home	8.165	0.4	0.5	0.2	11.8
Food away from home	5.205	0.9	0.5	0.4	8.3
Energy	7.348	1.8	-1.6	4.5	7.3
Energy commodities	4.014	4.4	-2	9.4	0.4
Gasoline (all types)	3.748	4	-2	9.4	-1.5
Fuel oil	0.115	19.8	1.7	-16.6	41.5
Energy services	3.334	-1.2	-1.1	1.5	15.6
Electricity	2.454	0.1	-0.2	1	14.3
Utility (piped) gas service	0.879	-4.6	-3.5	3	19.3
All items less food and energy	79.282	0.3	0.2	0.3	5.7
Commodities less food and energy commodities	21.699	-0.4	-0.5	-0.3	2.1
New vehicles	4.105	0.4	0	-0.1	5.9
Used cars and trucks	4.143	-2.4	-2.9	-2.5	-8.8
Apparel	2.458	-0.7	0.2	0.5	2.9
Medical care commodities	1.524	0	0.2	0.1	3.2
Services less energy services	57.583	0.5	0.4	0.5	7.0
Shelter	32.946	0.8	0.6	0.8	7.5
Transportation services	5.599	0.8	-0.1	0.2	14.6
Medical care services	6.962	-0.6	-0.7	0.1	4.1

Soure: U.S. Bureau of Labor, SMIFS Research

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