

The U.S. Inflation Update

Economic Update | 15th February 2023

Inflation Stays Elevated, Chances Of More Hikes Rises

Event	Actual	Consensus	Previous
U.S. CPI Inflation YoY	6.4%	6.2%	6.5%
U.S. CPI Inflation MoM	0.5%	0.5%	0.1%
U.S. Core CPI Inflation YoY	5.6%	5.5%	5.7%

Highlights:

- The annual inflation rate in the U.S. slowed slightly to 6.4% in January of 2023 from 6.5% in December. It is the lowest reading since October of 2021.
- A slowdown was seen in food prices (10.1% vs 10.4%) while cost of used cars and trucks continued to decline (-11.6% vs -8.8%). In contrast, the cost of shelter increased faster (7.9% vs 7.5%) as well as energy (8.7% vs 7.3%), with gasoline prices rising 1.5%, reversing from a 1.5% decline in December. On the other hand, both fuel oil (27.7% vs 41.5%) and electricity prices slowed (11.9% vs 14.3%).
- Compared to December, the CPI rose 0.5%, the most in three months, mostly due to the higher cost of shelter, food, gasoline, and natural gas.
- The index for shelter was by far the largest contributor to the monthly all items increase, accounting for nearly half of the monthly all items increase, with the indexes for food, gasoline, and natural gas also contributing. The food index increased 0.5% over the month with the food at home index rising 0.4%. The energy index increased 2.0% over the month as all major energy component indexes rose over the month.
- The Core CPI inflation eased for a fourth consecutive month to 5.6% in January 2023, the lowest since December 2021. Still, the rate came in above market expectations of 5.5% and remained well above the U.S. Federal Reserve's target.
- Compared to December, the Core CPI rose 0.4% in January. Categories which increased in January include the shelter, motor vehicle insurance, recreation, apparel, and household furnishings and operations indexes. The indexes for used cars and trucks, medical care, and airline fares were among those that decreased over the month.
- Both the CPI and Core CPI prints came in higher than market expectation and showed a much slower deceleration than in recent months. As long as shelter cost are going up as they have been, it is going to be tough to get inflation down anywhere close to Fed's target.
- This data supports the Fed's recent assertions that they need to hike rates further and keep them elevated for some time and possibly to a higher peak level than previously expected.

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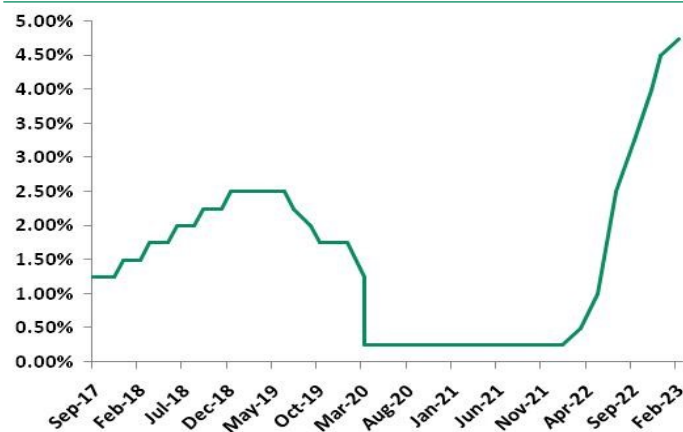
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Fig 1: U.S. CPI and Core CPI Inflation Trend YoY%



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
		Jan-23	Dec-22	Nov-22	Jan-23
All Items	100	0.5	0.1	0.2	6.4
Food	13.37	0.5	0.4	0.6	10.1
Food at home	8.165	0.4	0.5	0.6	11.3
Food away from home	5.205	0.6	0.4	0.5	8.2
Energy	7.348	2.0	-3.1	-1.4	8.7
Energy commodities	4.014	1.9	-7.2	-2.1	2.8
Gasoline (all types)	3.748	2.4	-7.0	-2.3	1.5
Fuel oil	0.115	-1.2	-16.6	1.7	27.7
Energy services	3.334	2.1	1.9	-0.6	15.6
Electricity	2.454	0.5	1.3	0.5	11.9
Utility (piped) gas service	0.879	6.7	3.5	-3.4	26.7
All items less food and energy	79.282	0.4	0.4	0.3	5.6
Commodities less food and energy commodities	21.699	0.1	-0.1	-0.2	1.4
New vehicles	4.105	0.2	0.6	0.5	5.8
Used cars and trucks	4.143	-1.9	-2.0	-2.0	-11.6
Apparel	2.458	0.8	0.2	0.1	3.1
Medical care commodities	1.524	1.1	0.1	0.2	3.4
Services less energy services	57.583	0.5	0.6	0.5	7.2
Shelter	32.946	0.7	0.8	0.6	7.9
Transportation services	5.599	0.9	0.6	0.3	14.6
Medical care services	6.962	-0.7	0.3	-0.5	3.0

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

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