

ECONOMIC NEWS

United States: Inflation Hits 7%

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HIGHLIGHTS

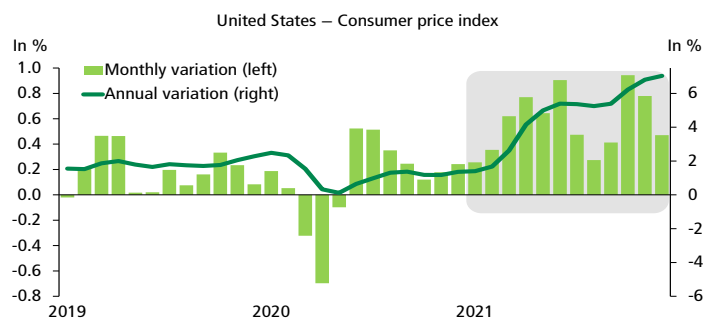
- ▶ The consumer price index (CPI) rose 0.5% in December after advancing 0.8% in November and 0.9% in October.
- ▶ Energy prices fell 0.4% after rising 3.5% in November, the first monthly decline since May 2021. Food prices were up 0.5% after a 0.7% increase in November.
- ▶ The index for all items less food and energy rose 0.6% on the month after advancing 0.5% in November and 0.6% in October.
- ▶ The all items index rose 7.0% for the 12 months ending December, the largest increase since June 1982 and up from 6.8% in November. Core inflation was up from 4.9% to 5.5%, the biggest advance since February 1991.
- ▶ For 2021 as a whole (annual average), total CPI rose 4.7%, while average annual core inflation was 3.6%.

COMMENTS

We saw the whole spectrum of inflationary conditions in 2021. A year ago, there were scant signs of price acceleration. Monthly core CPI, which strips out food and energy, was flat (0.0%) in January for the second straight month. Only energy prices were on the move, and total inflation was just 1.4%. One year later, annual CPI is up fivefold.

There are a number of factors at play here. First, demand for goods has been fuelled by government aid programs. Meanwhile supply has been constrained by pandemic-related conditions, including production slowdowns, factory closures, supply chain snags, transportation issues, labour shortages and higher commodity prices. The auto industry has been especially hard hit. It accounted for more than a quarter of the increase in the all items index for the 12 months ending December despite making up just 10.7% of the CPI basket. It wasn't a contributor in January of last year.

GRAPH Inflation skyrocketed in 2021



Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

These challenges are far from over, and we're starting to see price pressures on services as well. Housing prices have been rising at a faster pace since late summer. That means inflation could remain high over the coming months and won't abate until supply pressures ease.

IMPLICATIONS

Recent communications from the Federal Reserve make it clear that its officials now have inflation in the crosshairs. It's winding down asset purchases and could hike rates soon even though the job market hasn't fully recovered and Omicron continues to bring uncertainty.