

ECONOMIC NEWS

United States: Inflation Continues to Soar

By Francis Généreux, Senior Economist

HIGHLIGHTS

- ▶ The consumer price index (CPI) rose 0.6% in January after posting a similar increase in December and a 0.7% gain in November.
- ▶ Energy prices jumped 0.9% in January, matching December's spike. Food prices were also up 0.9% after rising 0.5% the month before.
- ▶ Core CPI, which strips out food and energy prices, rose 0.6%—the same increase as in December and higher than November's 0.5% gain.
- ▶ The all items index rose 7.5% for the 12 months ending January, the largest increase since February 1982 and up from 7.0% in December. Core inflation rose from 5.5% to 6.0%, the biggest 12-month change since August 1982.

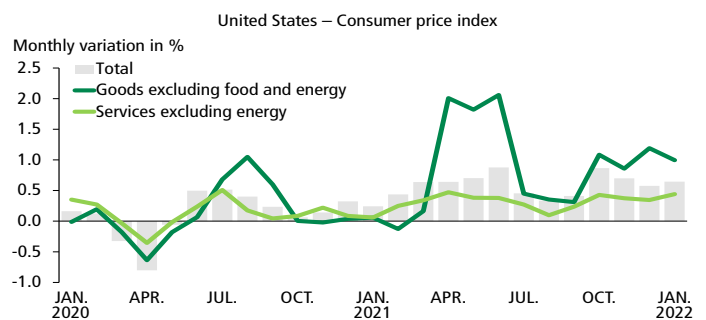
COMMENTS

2022 is starting off right where 2021 ended, with spiking consumer prices.

The factors fuelling higher inflation haven't changed. We're still seeing supply chain snarls, especially in the auto industry. Used car prices continue to go up, rising 1.5% in January alone and 40.5% in the past year. New car prices were unchanged in January, but were still up 12.2% over the previous 12 months. That said, car prices aren't driving monthly CPI gains the way they were in mid-2021. Other components are now contributing more to rising prices. In January, the increase was led by food (+0.9%) as well as a variety of other goods, including appliances (+1.5%), furniture (+2.4%), clothing (+1.1%), prescription drugs (+1.3%) and sporting goods (+2.5%). Today's inflation has a number of different causes, but as has been true throughout the pandemic, we're seeing the strongest price gains on the goods side. Goods prices excluding food and energy rose 1.0% in January, while service prices increased 0.4%.

GRAPH

Goods prices continue to spike



Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

Although inflation was up again in January, we may be approaching the point when the 12-month change starts to stabilize, then falls. At first, this will be driven by base effects, as the contrast with the previous year's prices becomes less stark. But supply chain pressures will eventually ease, slowing monthly and annual price growth.

IMPLICATIONS

Inflation remains extremely high and could continue to rise over the coming months. The Federal Reserve now clearly has inflation in its sights and is expected to start hiking interest rates in March.