RBC Economics
Current Analysis

RBC U.S. Inflation Watch

January 12, 2022

US headline inflation reached 7% in December 2021

- Headline inflation hit 7% in December, up 0.5% from prior month.
- Falling gasoline prices were more than offset by persistent rent increases and another jump in car prices.
- Omicron threatens to add to supply chain disruptions and input price pressure; Fed expected to hike rates in Q2.

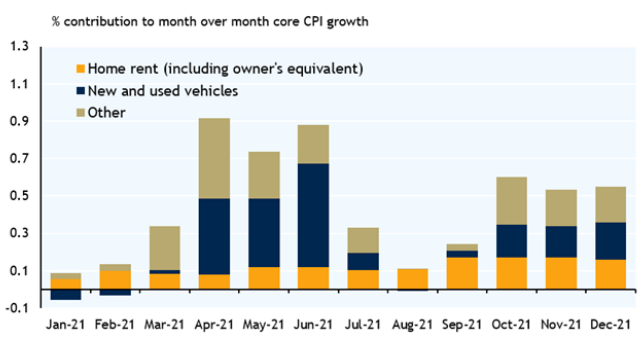
Headline CPI inflation growth grew to 7% year over year in December, a rate not seen since February 1982. Growth in energy prices ticked slightly lower to 29.3% but still accounted for about a third of the headline increase. That was largely as expected given the pullback in oil demand as Omicron concerns surfaced early in December. Oil prices have since recovered but growth relative to year-ago levels is still expected to continue to slow. Food prices also inched higher again, to 6.3% led by a sharp increase in meat prices (+12.5%). Excluding food and energy products, prices grew a smaller 5.5% year over year, or 0.6% from November on a seasonally adjusted basis. Similar to October and November, a large chunk of the monthly gain (over 65%) were attributed to new and used cars and housing rent. That builds on strength in prior months and leaves the average monthly increase in core prices at 0.6% over Q4 2021, well above the 0.2% average rate in pre-pandemic 2019.

Headline year-over-year price growth may begin to edge lower early in 2022 as distortions caused by very low prices earlier in the pandemic start to ease. But underlying inflation pressures have been broadening. The breadth of products seeing price growth at an above-2% rate over the past 2 years remained closer to 80% of the CPI basket (ex-shelter), compared to just 40% during the five years before 2020. Persistent supply chain disruptions have been putting considerable pressure on inputs, impacting businesses across many sectors. There have been tentative signs that those pressures were beginning to ease ahead of the emergence of the Omicron variant. Re-imposed containment measures outside of the US, and labour shortages caused by the high number of people required to self-isolate with the new variant, could well add to those near-term challenges. But broader underlying inflationary trends have been as much a function of strong demand as supply limits. With labour markets looking increasingly tight, widespread reports of staff shortages, and Omicron-related absences are expected to have an ultimately temporary impact on near-term growth prospects, the Fed is expected to begin hiking interest rates in Q2 of this year.

U.S. CPI Growth

	Oct-21	Nov-21	Dec-21	Dec-21
	MoM % change (SA)			*YoY % change*
Headline	0.9	0.8	0.5	7.0
Food	0.9	0.7	0.5	6.3
Energy	4.8	3.5	-0.4	29.3
Core	0.6	0.5	0.6	5.5
Goods ex food and energy	1.0	0.9	1.2	10.7
Used cars and trucks	2.5	2.5	3.5	37.3
Services ex energy	0.4	0.4	0.3	3.7
Car and truck rental	3.1	1.1	-5.3	36.0

Rent and cars driving inflation in the US



Source: Bureau of Labor Statistics, RBC Economics Research

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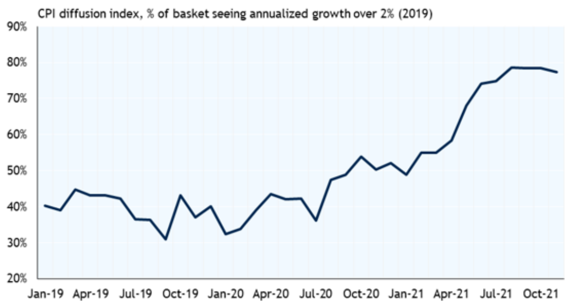
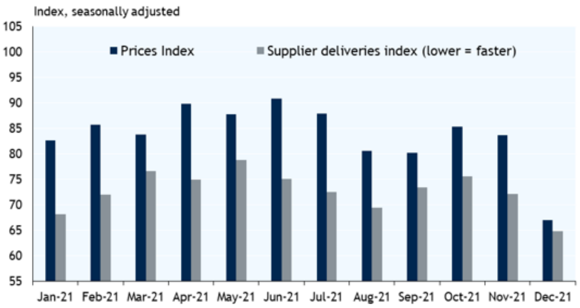
More prices rise at above 2% annual rate from pre-pandemic levels



Source: Bureau of Labour Statistics, RBC Economics

Supply chain price pressures ease ahead of Omicron wave

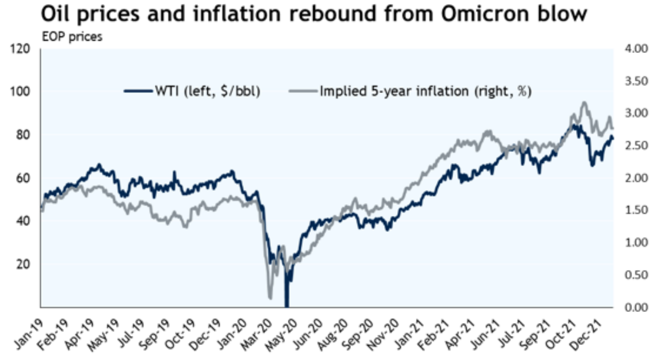


Source: Institute for Supply Management, RBC Economics

Labour costs surge for leisure and hospitality sectors

Source: Bureau of Labor Statistics, RBC Economics

Oil prices and inflation rebound from Omicron blow



Source: Haver, Chicago Mercantille Exchange, RBC Economics