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US Inflation peaks in March

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Consumer Price Index (monthly change, %)	Mar 2022	Feb 2022	Jan 2022	Dec 2021	Nov 2021	Oct 2021	Mar NSA YoY%
All items	1.2	0.8	0.6	0.6	0.7	0.9	8.5
Ex-food/energy	0.3	0.5	0.6	0.6	0.5	0.6	6.5
• Ex-food	1.3	0.8	0.6	0.6	0.7	0.9	8.5
• Ex-energy	0.4	0.6	0.6	0.6	0.6	0.6	6.8
Energy	11.0	3.5	0.9	0.9	2.4	3.7	32.0
Services	0.7	0.5	0.6	0.3	0.4	0.5	5.1
Housing	0.7	0.5	0.7	0.5	0.5	0.7	6.4
Fuels & util.	2.0	0.1	2.5	0.3	0.2	2.1	12.5
Food/beverages	1.0	1.0	0.8	0.5	0.7	0.8	8.5
• Food	1.0	1.0	0.9	0.5	0.8	0.9	8.8
Apparel	0.6	0.7	1.1	1.1	0.7	0.6	6.8
Transportation	3.9	1.9	0.4	1.4	2.0	2.0	22.6
Medical care	0.5	0.2	0.7	0.3	0.3	0.4	2.9
Recreation	0.2	0.7	0.9	-0.1	-0.2	0.7	4.8
Education, comm.	-0.2	0.0	0.1	0.1	0.0	0.1	1.5
Other good, serv.	0.5	1.1	0.8	0.5	0.2	0.8	5.5
Commodities	2.1	1.3	0.8	1.0	1.2	1.4	14.2

Source: Haver Analytics.

- Inflation heated up in the US in March, as the surge in gasoline prices left total inflation at 8.5% y/y, a tick above expectations. Excluding energy and food prices, core monthly prices were weaker than expected, rising by 0.3% (vs. 0.5% expected), as used car prices dropped. That still left the annual rate of core inflation at 6.5%, a tick hotter than the prior month's reading. March will likely be the peak for inflation as the indices will be lapping some strong year-ago readings starting in April, while gasoline prices have eased off lately. Still, in order to achieve on-target inflation in 2023 in the face of a tightening labor market, the Fed will be inclined to raise rates by 50bps at the next FOMC, followed by a string of 25bps hikes at subsequent meetings, before pausing temporarily in Q4.
- The jump in gasoline prices tied to Russian sanctions accounted for over half of the 1.2% monthly advance in total prices, and was likely magnified by the increase in mobility as Omicron faded. With prices at the pump averaging below March's level through mid-April, gasoline will take some steam out of the pace of monthly inflation in April. Food prices continued their ascent, mainly reflecting strength in the food at home component, as supply issues resulting from poor weather conditions have been an ongoing issue. Supplies of cereals and grains have been impacted by the war in Ukraine, and cereal prices accelerated to 2.1% m/m in March.

- The softer-than-expected monthly advance in core prices reflected a drop in used car prices, as suggested by earlier released industry data. This is the second consecutive monthly drop in used car prices, although they remain up by 35% from year-ago levels. Moreover, monthly new car price gains have moderated and showed only modest growth in March. While we expect supply chain issues to improve over the back half of the year, the recent lockdowns in China present a headwind in the near term.
- The main contributors to the advance in core prices included shelter and airfares. The former category continues to play catch-up to home prices as activity returns to cities and leases reset. Judging from the deviation in the home price-to-rent ratio relative to its normal level, there is ample room for rent prices to rise further. Given the stickiness in that component and the fact that it's the largest weighted component in the index, the Fed will be especially cognizant of that. The climb in airfares coincides with both the jump in fuel costs and the increase in demand for travel services as Omicron faded, in line with the increase in TSA airport screenings.
- The impact of Covid fading was captured in accelerations for the price of other services including hotels (represented in the shelter sub-index), medical care services, and car rentals, while car insurance rates also rose by a strong 0.8% on the month. With services demand expected to strengthen over the summer as the pandemic fades, accelerating service prices will provide some offset to an expected easing in core goods prices as supply chain issues fade.
- This print leaves 66% of the CPI basket tracking inflation above the 3% mark, up from 25% last summer, showing that price pressures have broadened. With the labor market set to reach full employment in the coming months as demand for services gains momentum as the virus fades further, price pressures are likely to continue to broaden.

Implications & actions

Re: Economic forecast — Although March likely represents the peak for inflation, as the indices will be lapping some strong year-ago readings starting in April, the Fed will still have to raise rates by 125bps over the rest of this year to achieve on-target inflation in 2023, with the next hike likely to be 50bps in May.

Re: Markets — Yields and the USD dropped ahead of the release of the data, but were little changed following the CPI data, as the stronger headline inflation reading offset the impact of the weaker core reading, while the latter won't do anything to change the Fed's tightening path.