U.S. CPI Preview: Feb 2022

MNI View: A Softer Version Of December

By Chris Harrison

The January CPI inflation report comes on the back of Friday's surprisingly strong payrolls, which further justified the FOMC's hawkish turn and saw a more serious consideration of a 50bp hike next month plus firmer pricing of five hikes through 2022. As things stand, Fed Funds futures price 34bps for March with consecutive hikes in May & June and 134bps for 2022, up from 22bps and four hikes total this time last month.

Consensus for January's inflation report is for a modest moderation after a strong December, with the median seeing core CPI at +0.5% M/M (average 0.45%) after 0.55% M/M. Core inflation was previously led by surging core goods (+1.9% M/M) as core services plateaued, with both categories expected to ease this month. Headline is seen at +0.4% M/M with a similar pace in energy inflation. These sequential rates would push headline up 0.3pps to 7.3% Y/Y and core up +0.4pps to 5.9% Y/Y, the highest since 1982.

The expected drivers are very familiar:

- Used vehicle prices are seen moderating but continue to grow much stronger than the CPI average, with JPM estimating a rise of 2.2% M/M. This is the main move behind core goods inflation seen slowing from 1.9% M/M in Dec to circa 1% M/M this month.
- Rents and owner equivalent rents are once again seen to support strength in underlying core inflation with another ~0.4% M/M increase as strength in the housing and labour markets continue to feed through.
- Other categories could be more mixed, with some upside from medical products and services, moderation in apparel prices after some large increases and a widely expected drag from hotel and travel prices on the back of Omicron disruption.

Analysts' expectations for core CPI are largely split between 0.4 and 0.5% M/M. Of the dealers summarised below, GS is at the high end with +0.52% M/M. Scotiabank is the clear standout with a call of just 0.2% M/M, putting greater weight on first-round effects from Omicron disruption.

Bloomberg Survey Range For Core CPI % M/M

Release Date	Time	A	M	Event	Period	Actual	Prior	Revised
02/10/22	13:30	US		CPI Ex Food and Energy MoM	Jan	--	0.6%	--

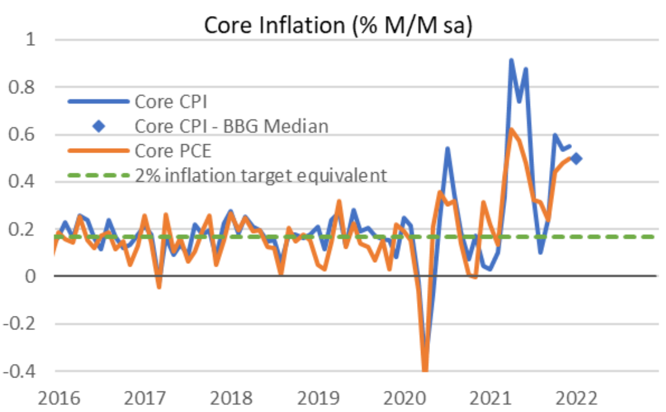
Summary	
Median Estimate	0.5%
Average Estimate	0.45%
High Estimate	0.8%
Low Estimate	0.2%
Number of Estimates	60
Qualified Economists	64
Standard Deviation	0.08%
Custom Estimate	

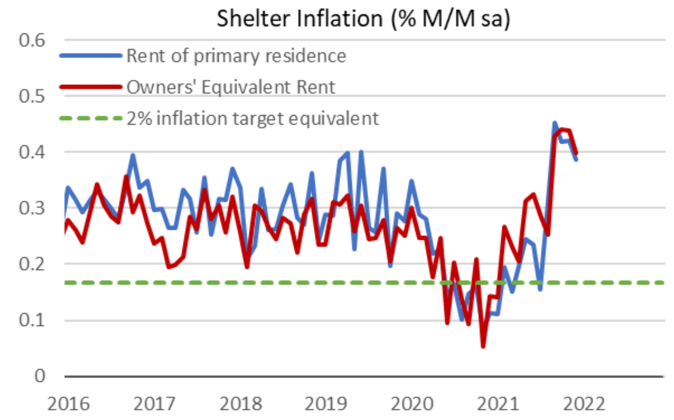
Source: Bloomberg

Updated seasonal factors and weights: The BLS will release updated seasonal adjustment factors today (Feb 8, 1100ET), with revisions for 2017-21 plus new factors for 2022. Further, with the release on Feb 10, CPI item weights will be updated from 2017-18 to 2019-20 expenditures. UBS explicitly say they don't expect either of these changes to have a notable effect on inflation and most of the sellside analysts below don't mention them, although Natwest might revise their estimate on today's new seasonal factors.

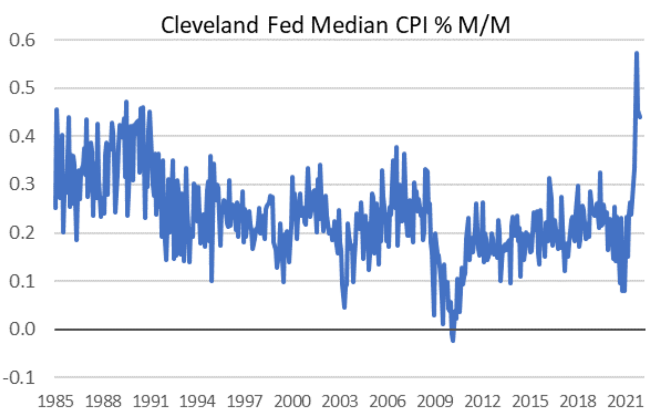
As usual, the persistence of the market reaction to a beat or miss will obviously depend on the contributions behind it. Ambiguous signs of Omicron disruption could limit the scope for market reaction and put greater emphasis on the February report on March 10, coming just ahead of the March 16 FOMC. However, with markets increasingly pricing in more hikes, the largest reaction would likely be from a downside surprise as some of the latest moves are trimmed along with a bull steepening in Tsys and USD weakness.

Recent Inflation Developments





Source: BLS, MNI



Source: Cleveland Fed, MNI

Jan 2022 CPI Report: Analyst Previews

(In order of strongest to weakest for core inflation):

GS: Strength From A Variety Of Areas, Not Just Autos

- Goldman estimate a 0.52% M/M increase in core CPI, boosting the Y/Y by 0.5pp to 6.0%.
- This “reflects a further rise in used car auction prices and related upward pressure on new car prices”.
- They also expect a boost from start-of-year price hikes in physicians services, pharmaceuticals, and some consumer services categories, although there is some Omicron-driven drag on hotel and airfare prices.
- They estimate rent +0.39% and OER +0.40%, “reflecting the strength in our shelter tracker in recent quarters”.
- Health insurance prices also likely rose again, reflecting the gradual flow-through of the annual source data.
- Headline is seen rising a similar +0.50% M/M, reflecting rising food prices.

BMO: Widening Breadth Of Price Pressures Supports Persistence Of Recent Monthly Run Rates

- BMO see “slightly slower” results than Q4’s monthly moves for core and headline but both still rounding to a raised 0.5% M/M reading.
- This will lift headline from 7.0 to 7.2% Y/Y, a four-decade high, and core up from 5.5% to 5.9% Y/Y, the fastest since 1982.
- Shelter costs will drive the pace, “between the direct impact of rent increases and the indirect impact of them (along with record-high home prices) on owners’ equivalent rent”.
- Vehicle prices should slow from their recent speedy rates but still clock in well above the CPI average.

- Of the traditionally volatile items, “food should register another strong gain (0.4%), albeit below the 40-year-high trend of the past nine months (6.9% annualized), as the influence of supply shortages owing to log-jammed distribution channels and climate-related events fades somewhat” although with risks to the upside.
- “Energy prices are unlikely to lead this month (0.3%), as flattish gasoline prices temper larger gains in those for natural gas and heating oil”.
- With the Cleveland Fed’s trimmed-mean and median CPI metrics in the 0.4-0.7% range during the latest four months, there are signs of persistence in the current monthly changes in core.

JPM: Solid Shelter, Moderating But Still Strong Auto Price Inflation

- JPM forecast core CPI at +0.44% M/M in Jan, pushing the Y/Y up from 5.5% in December to 5.9%.
- They see continued solid price increases for rent this month, with rents up 0.40% and OER 0.42% i.e. close to the average from recent months.
- “Lodging prices have jumped in recent months, but with COVID spread likely dampening demand for travel lately, we look for a more modest gain in January of 0.3%”.
- They see used vehicles up 2.2% M/M, a more modest pace than in earlier months, and new vehicles up 0.4% M/M. Public transportation prices are also expected to moderate with a 0.6% M/M increase.
- As for other categories, they expect medical care prices kept trending up (+0.3% M/M), a moderation in apparel prices after jumps in Nov and Dec (0.2% M/M) and little change in communication prices in a continuation of the soft trend (0.0% M/M).
- With energy expected to be up +0.4% and food to keep rising at a solid rate of +0.5% M/M, they see headline up +0.4% M/M and the Y/Y reaching 7.3%.

Morgan Stanley: Firm But Softer Core Goods, Rents Partially Offset By Omicron Hit To Hotels

- MS see core CPI at +0.42% M/M after the +0.55% in Dec, pushing the Y/Y up 0.4pps to 5.9%.
- Core goods inflation expected to see another firm +0.9% M/M, “led by continued gains in used car prices and some upside in apparel prices, while new car prices should post continued gains as well”.
- Core services inflation is seen more moderate at +0.25 M/M, with rent and OER of +0.4% M/M partially offset by their forecast for a “sharp decline” in hotel prices.
- Headline CPI is also seen at +0.42% M/M, with food up +0.4% and energy 0.35%, which pushes the annual rate up +0.3pps to 7.3% Y/Y.

CIBC: Goods Prices To See Some Relief Ahead But Cyclical Wage Pressures and Shelter Costs Remain

- With “firmer energy prices and higher labor costs passed onto consumers”, CIBC see both headline and core inflation at +0.4% M/M in Jan, pushing annual rates to 7.2% Y/Y and 5.9% Y/Y respectively.
- “Amplifying those gains will be the continued rise in shelter prices as activity returns to cities and rents rise, while base effects will also provide a lift as weaker year-ago readings are lapped”.
- They are see used car prices as a contributor but the pace of price gains appears to have slowed with the supply of vehicles on the market increasing in January.
- “While goods prices will see some relief ahead as supply disruptions fade, cyclical wage pressures and higher shelter costs could see core inflation accelerate, magnified by base effects”.

SocGen: Expecting Core To Peak In February

- SocGen see core inflation at +0.4% M/M in Jan and peaking in February in Y/Y terms.
- Their biggest concern remains rents, which are accelerating. “OER rose 3.8% Y/Y in Dec compared to 3.4% Y/Y pre-Covid. “The current pace may not seem out of step, but the latest monthly increases are running at 0.4% M/M, which if sustained, would lift the yoy measure to 4.8%”.
- “PreCOVID, rents running above 3% along with other service sector products running above 3% were offset by very weak pricing of hard goods such as autos and electronics”.
- “Moving back to that inflation environment does require more time”.
- “The headline inflation reading is notorious for volatility due to energy primarily and food secondarily. Energy prices are highly uncertain at present”. In January and at present, geopolitical factors are adding to the energy price run-up.

Wells Fargo: Exceptional Goods CPI Surge To Continue

- Wells Fargo analysts are pencilling in +0.4% M/M headline (7.2% Y/Y) and +0.5% core (5.9% Y/Y) for January, which are basically in line with consensus.

- They see the "exceptional pace" of goods CPI continuing in early 2022, with services set to trend higher as well.
- "With the supply side of the economy still struggling to keep up with domestic demand and Omicron's emergence exacerbating the issue further, we expect to see the exceptional pace of goods inflation to continue. Services inflation is set to trend higher this year as well, reflecting the lagged pass-through of higher prices for physical inputs and labor."

UBS: Strong, But A Step Slower
- UBS see core inflation of +0.37% M/M, led by motor vehicles for the fourth month in a row even if both new and used prices increase by less than in Dec. This pushes the Y/Y up +0.3pps to 5.8%.
- Prices for other core goods are also expected to continue rising strongly “as import prices are increasing solidly and demand remains elevated (despite a notable easing in December)”.
- On services, they see further robust increases in OER and tenants’ rent, “as earlier rises in rents for new leases continue to filter into the CPI measure of rents”, plus rises in medical insurance prices for the “fourth month of a 12-month burst in price increases”.
- Downside is seen from Omicron hitting airfares and lodging away from home.
- Headline is seen fractionally stronger at +0.39% M/M, pushing the Y/Y up to 7.2%.
- Looking ahead, UBS see core CPI remaining solid over the next few months with M/M increases in OER and rent expected to peak in late Q1 or early Q2.
- “In Q2 with rents starting to slow, and motor vehicle production and inventories gradually rising and weighing on vehicle prices, monthly core price increases should begin to slow more rapidly”.
- They see core peaking at circa 6.25% Y/Y in March and headline at 7.5% Y/Y in Feb.

Deutsche: Watch Hotels, Airfares, Used Cars, And Rents
- Deutsche sees headline and core CPI coming in identically in January's print, at +0.36% M/M for each. This would represent Y/Y rates of 7.2% and 5.8% respectively and are on the soft side of consensus.
- They see "roughly flat" gas prices and a "solid print in food", with "the biggest wild cards...lodging away and airfares given the omicron wave".
- On that note, Deutsche sees seasonal factors adding additional uncertainty, as non-SA prices in those categories tend to increase from Dec to Jan, "so any omicron related shortfall in demand could be magnified relative to August."
- They are also looking closely at used vehicle (expecting prices to begin to subside with the Jan release) and rent prices (seeing +0.4% for OER and primary rents, similar to Dec).

Natwest: Moderation After A Strong Q4
- Natwest see core inflation at a more modest rate of +0.37% M/M in Jan after average monthly gains of +0.6% M/M in Q4. Headline is seen at 0.3% M/M.
- They might revise this after the BLS publishes revised seasonally adjusted data for 2017-21 and new 2022 seasonal adjustment factor on Feb 8th.
- They see core goods inflation at ‘just’ 1.0% M/M after jumping 1.9% in Dec, whilst core services prices likely maintained their 0.3% M/M, “despite some adverse impact from latest surge in Covid cases”.
- Medical care inflation is seen as moderating slightly from 0.4% to 0.3% M/M on continued factoring in of reimbursement rates, led by outpatient hospital care.
- This would push core inflation up 0.3pps to 5.8% Y/Y (the highest pace since October 1982). The “factors that have driven inflation higher in 2021 are only expected to dissipate gradually and are likely to keep pushing inflation higher through the first half of 2022”.
- Natwest expect “there will be a shift from goods inflation, particularly motor vehicle and commodities prices to more persistent services inflation, such as wages and (heavily-weighted) rents”.

TD: Rent Prices Won't Accelerate...But Won't Cool Either
- TD forecasts M/M core and headline readings of 0.36% / 0.37% respectively in January's reading, "so we see more risk of 0.3%/0.3% than 0.5%/0.5%".
- That's on the softer side of expectations, with "strength in used vehicles...probably partly offset by weakness in hotels and airfares."
- They see +0.44% OER / +0.42% primary rents, in line with recent readings.
- While they don't see much slowing in rent prices, they also "don't expect much more acceleration" going forward either.

- TD also notes that the updated CPI weightings and seasonal factors "will not affect history" [including revised SA M/M readings for the past 5 years, though NSA to be unch] "but could lead to slightly different trends going forward".

Scotiabank: Materially Below Consensus On Omicron First-Round Effects

- Scotiabank look for CPI inflation notably below consensus at 0.2% M/M for both headline and core, pushing Y/Y rates to ~7% and 5.25% respectively.
- “Recent experience has shown that when pandemic cases rise, month-to-month changes in price rise more slowly” and vice versa when cases fall. “That’s especially true if we just look at proxies for high-contact sector prices”, where the first-round effect on price measures have tended to be disinflationary.
- The high contact pandemic-related price categories tend to suffer significant declines in prices when cases surge, e.g. airfares, travel and lodging, food away from home.
- “If aggregate price pressures decelerate for such reasons then it would likely be treated as transitory. If price pressures do not decelerate then it could be evidence of how deeper resilience to COVID-19 waves and heightened supply chain challenges at full capacity are driving greater sustained inflation risk that one shouldn’t look through”.
- Further, “used vehicle prices were also down 3.4% m/m NSA according to trade-in values through JD Power and, at a 3.42% CPI weight, they subtract 0.1% m/m”.
- Gasoline prices should be a minor effect with a contribution of 0.06 (NSA prices up 1½% m/m with ~4% CPI weight) whilst “home heating costs estimated by natural gas spot prices were up sharply (16% m/m) but a very low weight in CPI will mean this category adds up to 0.1% m/m to CPI”.