Economic highlights from the week ending on January 14, 2022

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Inflation continues to run well above the Fed's longer-run target of around 2.0%. The Consumer Price Index (CPI) was up 7.0% year-over-year in December, versus up 6.8% year-over-year in November. Core CPI (CPI less food and energy) was up 5.5% year-over-year in December, versus up 4.9% in November. Pricing pressures were widespread in December, with notable gains for used cars and trucks, new vehicles, food, and rent. While we believe year-over-year inflation may be at or near a peak, we expect pricing pressure will remain elevated over the near-term. The ports of Long Beach and Los Angeles remain congested, and we believe the China's 'zero-Covid' strategy and the upcoming Chinese Lunar New Year holiday may also exacerbate global supply chain disruptions near-term. Meanwhile, we believe the current surge in US Omicron cases is likely putting additional strain on labor supply, fueling continued upward pressure on wages. However, we expect inflationary pressure will start to abate later this year, amid an improvement in the global health situation, easing supply chain bottlenecks, and a potential shift in consumer spending toward more services spending rather than goods. In addition, over the coming months, year-over-year inflation readings will also start to comp against rising inflationary pressures last year. Fiscal drag and normalizing monetary policy should also help to ease pricing pressures as we move through this year, in our view.

On a year-over-year basis, retail sales were up 16.9% in December versus up 18.2% in November. On a month-over-month basis, retail sales were softer than expected in December, down 1.9% versus expectations of down 0.1%, following a modest gain of just 0.2% in November. Excluding vehicles and gas, retail sales were down 2.5% month-over-month. In our view, the data suggests that consumers started shopping early in the holiday season and that high gas prices are likely taking some wallet share. We believe the surge in Omicron virus cases likely hindered December sales as well. We remain constructive on the outlook for consumer spending this year, but we believe the current surge in virus cases is likely to take a toll on January retail sales. Looking further ahead, we believe high levels of consumer savings along with improvement in the health situation and continued improvement in the labor market, should provide a healthy tailwind for consumer spending.

Next Week

Empire State Manufacturing, Housing Market Index, Housing Starts & Permits, Philly Fed, Existing Home Sales, Leading Indicators

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