

ECONOMIC NEWS

United States: Energy and Base Effects Cause Inflation to Rise

HIGHLIGHTS

- ▶ The consumer price index (CPI) rose 0.6% in March, after advancing 0.4% in February. This is the highest increase since June 2009.
- ▶ Energy prices soared 5.0% thanks to the 9.1% jump in gas prices. Manufacturing sales only edged up 0.1% in March.
- ▶ Excluding food and energy, core CPI increased 0.3% in March, after rising 0.1% in February.
- ▶ The annual variation in total CPI went from 1.7% in February to 2.6% in March, its highest point since August 2018. Core inflation, excluding food and energy, rose from 1.3% to 1.6%.

COMMENTS

The rapid rise in the annual variation in total CPI was largely expected. Such an increase was inevitable because of the base effects, which now exclude the drop in prices at the beginning of the pandemic in the calculation. As a result, when combined with the recent hike in gas prices, this effect leaves out the 0.3% decrease in CPI which occurred in March 2020, but includes the 0.6% increase in March 2021. The base effect should be even higher in April (CPI plunged 0.7% in April 2020) and inflation should soon surpass the 3% mark.

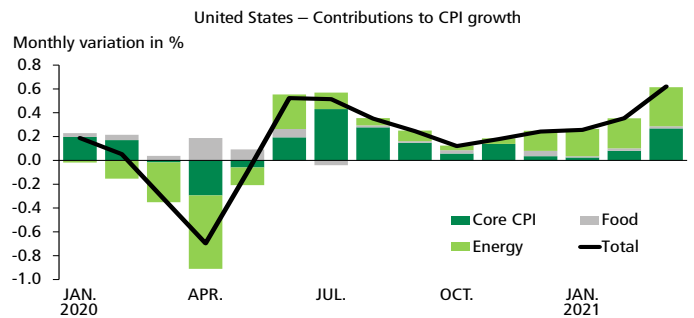
Aside from the base effects and higher energy prices, there appears to be little upward pressure at the present time on consumer prices. Prices for goods, excluding food and energy, were up a mere 0.1% in March after falling 0.2% in February. The 0.4% increase in service prices is mostly due to transportation (+1.8% in March), down 1.6% from last year.

IMPLICATIONS

Due to the comparison with last year, inflation is sure to be higher in the coming months. This effect is expected to be short-lived. However, it remains to be seen if recent pressures, primarily

GRAPH 1

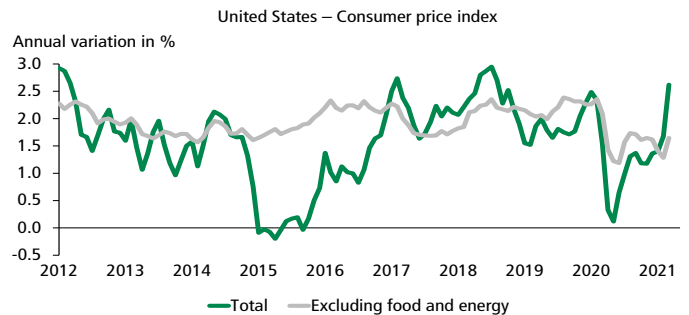
Energy is a major source of recent consumer price increases



CPI: Consumer price index
Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

GRAPH 2

Total inflation reaches its highest point since the summer of 2018



Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

due to production costs and a forecasted upswing in economic activity and hiring, will cause a long-lasting increase in consumer prices.

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