

ECONOMIC NEWS

United States: Inflation Nears 8%

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HIGHLIGHTS

- ▶ The consumer price index (CPI) increased 0.8% in February, after rising 0.6% in both January and December.
- ▶ Energy prices climbed 3.5% in February, the largest gain since October. The cost of food rose 1.0% after increasing 0.9% in January.
- ▶ Core CPI, which strips out food and energy, was up 0.5%, slightly less than the 0.6% gains posted in the previous two months.
- ▶ The all items index rose 7.9% for the 12 months ending in February, up from 7.5% in January. The 12-month increase has been steadily rising and is now the largest since January 1982. Core inflation jumped from 6.0% to 6.4%, the biggest 12-month change since August 1982.

COMMENTS

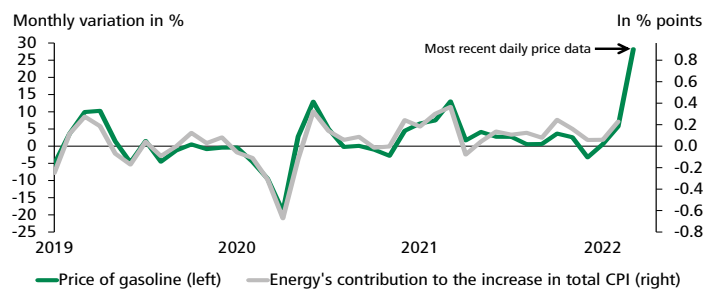
U.S. inflation continues to soar. It's up nearly fivefold from its 1.7% reading just a year ago. Over 84% of the goods and services in the CPI basket have seen price gains of more than 3% in the past year. 42% have seen prices rise more than 5%.

February's increase in CPI was led by higher energy prices. Gasoline prices spiked 6.6% on the month, with fuel oil rising 6.7%. These gains were partly offset by a 1.1% decline in electricity prices, which was likely due to milder February temperatures. (Some states adjust prices based on demand.) We expect energy prices—specifically the price of gasoline and fuel oil—to continue to weigh heavily on inflation in March. The war in Ukraine has led to a spike in global oil prices, and that's already being reflected at the gas pump. According to daily price data, gas prices are up nearly 25% in the past month. Give the current climate, inflation will easily top 8% in March.

Other factors driving up inflation have also been exacerbated by the war in Eastern Europe. Food prices increased at the fastest pace in February since April 2020, and other rising costs could

GRAPH

The recent spike in gasoline prices could push CPI even higher in the United States



CPI: Consumer price index

Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

push prices even higher. But we did see price gains for some goods moderate in February. Excluding food and energy, goods prices were up 0.4%, the smallest increase since September. The cost of used cars and trucks was down 0.2%, though it's still up 41.2% over the past 12 months. But the Ukraine crisis could send these prices higher once again.

IMPLICATIONS

With inflation continuing to climb, the Federal Reserve is set to start raising interest rates next week. The war in Ukraine is an important issue that carries both additional inflationary risks and downside risks to economic growth.