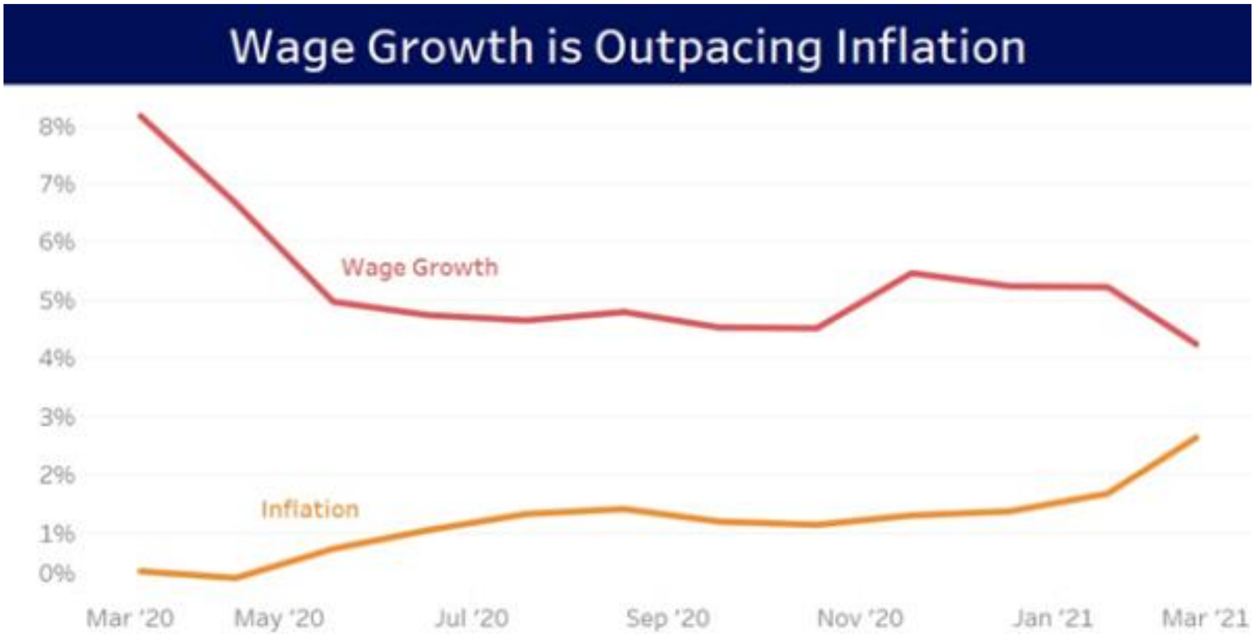
March Consumer Prices Rose the Fastest Since 2012

With the economy on the precipice of an acceleration once virus levels fall more and service businesses are able to more fully open, the largest downside risk (other than unknowns with the virus) to economic performance remains high inflation. The March figures showed the Consumer Price Index (CPI) rose 0.6%. That is the largest monthly increase since 2012. CPI rose 0.3% in January and 0.4% in February.

By the numbers: On an annual basis, inflation rose 2.6% compared to a year ago. This is the first time the CPI has broken the Fed's 2% target since early 2020. However, this is compared to a low base. In March of 2020, the CPI fell 0.3%. Inflation is likely to look high on a yearly basis for the next few months as it fell in April and May of 2020 too. For now, it's best to look at the monthly figures to get a more accurate take on where inflation stands currently.

Breaking it down: CPI excluding food and energy rose a more modest 0.3% in March, meaning half the overall rise came from food and energy. More accurately it came almost all from energy prices. Food prices rose only slightly. Gasoline rose more than 9% in the month. Overall, energy prices jumped 5%.

Even though inflation is ticking up, wage growth is still outpacing it. Wages grew 4.2% on an annual basis in March. Wages have outstripped inflation every month since July 2018. Workers are seeing their real buying power grow month after month, which is good news for spending.



Bottom line: Inflation expectations are rising given the Fed's extraordinary actions the last year and the enormous spending from Congress. Inflation may be a problem in the future should it rise more, but the recent uptick is not concerning. It is still relatively modest and is more a sign of a reviving economy and an opening service sector.

—Curtis Dubay, Senior Economist, U.S. Chamber of Commerce