Markets

Economics

U.S. Inflation Hit Fresh 40-Year High of 7.9% Before Oil Spike

- Gasoline, food, rent drove February's monthly price increases
- Fed seen starting series of interest-rate hikes next week

U.S. Inflation Climbs to 40-Year High at 7.9% in February

By Olivia Rockeman
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U.S. consumer price gains accelerated in February to a fresh 40-year high on rising gasoline, food and housing costs, with inflation poised to rise even further following Russia's invasion of Ukraine.

The consumer price index jumped 7.9% from a year earlier following a 7.5% annual gain in January, Labor Department data showed Thursday. The widely followed inflation gauge rose 0.8% in February from a month earlier, reflecting higher gasoline, food and shelter costs. Both readings matched the median projections of economists in a Bloomberg survey.

Getting Hotter

U.S. inflation accelerated to a 40-year high of 7.9% in February

Source: Bureau of Labor Statistics

Excluding volatile food and energy components, so-called core prices increased 0.5% from a month earlier and 6.4% from a year ago.

The figures show an inflation cloud over the economy that's proved more persistent and expansive. The price spike has pushed the Federal Reserve to end two years of near-zero interest rates, likely starting with a quarter-point hike next week. It's also sunk President Joe Biden's approval ratings ahead of November's midterm elections that may cost Democrats their thin congressional majorities, especially as inflation outpaces wage gains.

While February was once forecast as the peak for U.S. inflation, now readings are set to increase to above 8%, according to some economists. That's because the Ukraine war and Biden's ban on Russia energy imports tightened oil supplies and sent prices of U.S. retail gasoline and other commodities to some of the highest on record this month.

"Inflation is not likely to roll over and begin to come down for several more months," Michael Gapen, chief U.S. economist at Barclays Plc said on Bloomberg Television. "This sets the stage for where we are now. And we need to see how long this conflict plays out and how disruptive the sanctions regime actually is."

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The geopolitical situation adds uncertainty to the central bank's rate hiking cycle over the coming year. Fed officials could take a more hawkish stance if energy shocks lead to higher and more persistent inflation, but they also may take a more cautious approach if sinking consumer sentiment and declining real wages begin to weigh on growth as the war drags on.

What Bloomberg Economics Says...

> "There is a cost to the Fed being gradual: Future inflation is best predicted by lagged values of past inflation, and a more gradual Fed now likely mean a more aggressive Fed later."
>
> -- Anna Wong and Andrew Husby, economists
>
> Click here for the full note

The S&P 500 opened lower and the yield on the 10-year Treasury note rose.

The February CPI data showed that gasoline prices climbed 6.6% from the prior month and accounted for almost a third of the monthly increase. Some of that may reflect energy price spikes resulting from the first days of Russia's invasion during the last week of the month. The impact will be more fully captured in the March CPI report.

So far this month, the retail price of a regular-grade gasoline has increased 19.3% to $4.32 a gallon, according to American Automobile Association data.

Food prices climbed 1% from the prior month, the largest advance since April 2020, the CPI report showed. Compared with February last year, the 7.9% jump was the biggest since 1981.

While the war's full impact on the U.S. economy remains unclear, soaring costs of oil, grains and metals are likely to feed through to other commodities and ultimately consumer prices. The Biden administration on Tuesday banned Russian oil imports into the U.S., a move that will add to energy price pressures.

Real Earnings

Wage increases as a result of a tight labor market haven't been keeping up with inflation. Inflation-adjusted average hourly earnings dropped 2.6% in February from a year earlier, the largest drop since May and the 11th straight decrease, separate data showed Thursday.

The report showed that prices for merchandise continued their climb in February, while annual growth in services costs accelerated. On a year-over-year basis, goods inflation rose by 13%, the most since 1980. That included the largest-ever annual increase in prices of new cars and trucks.

Services costs increased 4.8% from a year ago, the biggest advance since 1991.

Shelter costs -- which are considered to be a more structural component of the CPI and make up about a third of the overall index -- rose 0.5% from the prior month, the most since November. Rent of primary residence increased 0.6% on a monthly basis, the largest advance since 1987.

Motor-vehicle repair costs shot up by a record 4.3% from January, and an index of personal care jumped an unprecedented 1.2%.

The prices of hotel stays and airfares rebounded in February following the omicron-related pullback in economic activity in December and January.

– With assistance by Julia Fanzeres, Kristy Scheuble, and Reade Pickert

(Adds market open)
