

United States

Largest monthly rise in consumer prices since June 2009

- **Headline consumer prices rise 0.7% in February, fuelled by higher gasoline prices**
- **Core prices rise 0.2% after 0.3% monthly increase in January**

A jump in gasoline prices meant US consumer prices rose more-than-expected in February, showing the largest monthly increase since June 2009. Core prices also rose. The increase will jangle some nerves at the Fed, but policymakers will remain focused on ensuring the economic upturn looks sustainable and robust before worrying too much about inflation.

Having eased over the prior three months to 1.6% in January – its lowest for two years with the exception of a dip to 1.4% last July – the headline annual rate of US consumer price inflation picked up to 2.0% in February, above analysts' expectations of a rise to 1.9%. Having shown no month-on-month change in December and January, prices rose 0.7%, considerably higher than the expected 0.5% rise and the largest monthly increase in prices since June 2009.

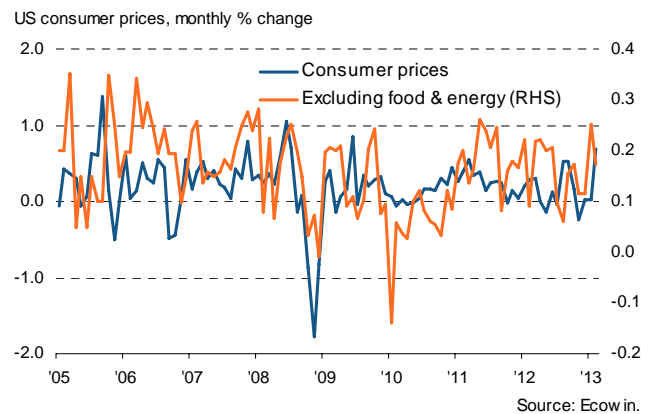
Around three-quarters of the increase can be explained by higher gasoline prices, which rose 9.1% over the month in February. Energy costs as a whole meanwhile increased 5.4% and food prices rose 0.1%.

The core rate of inflation, which excludes volatile food and energy prices, picked up to 2.0%, having held steady at 1.9% in the previous three months, and was in line with expectations. However, core prices rose 0.2% month-on-month in February which, coming on the back of a 0.3% increase in January, may make some policymakers twitchy about the inflationary impact of QE.

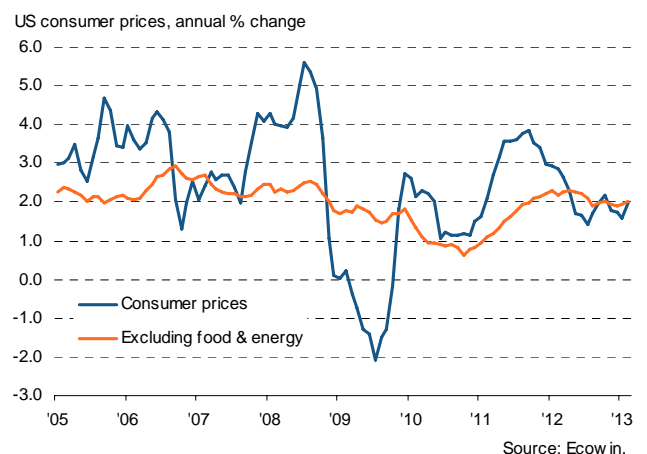
Despite the uptick in inflation, the FOMC is unlikely to be persuaded to do anything other than continue with its current asset buying program when it meets next week. Policymakers will no doubt want to see more evidence that the resilience shown by the economy so far this year will turn into a sustainable and robust upturn before being overly worried about inflation.

The Fed will have been pleased to see signs of ongoing growth in both the manufacturing and retail sectors so far this year, as well as the much better-than-expected news on employment in February, suggesting that the economy is faring well in the face of headwinds such as the payroll tax increase and uncertainty over fiscal policy.

Monthly % change in inflation



Annual % change in inflation



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