TD Economics

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Data Release: Gasoline prices push up inflation in February, but rebound will be short lived

- Consumer prices rose by 0.2% (month-over-month) in February, bang-on market expectations. Core CPI (excluding food and energy) also rose 0.2%, ahead of expectations for a 0.1% M/M gain.

- Consumer price inflation (on a year-over-year basis) rose to 0.0% from -0.1% in January. The core rate edged up to 1.7% from 1.6%.

- Energy prices rebounded in February, rising by 1.0% (M/M), following seven straight months of declines. increase in energy prices was led by gasoline, which rose 2.4% on the month. Energy prices were still down 18.8% on a year-over-year basis.

- Food prices rose 0.2% (M/M), accelerating from 0.0% growth in January. Food prices are up 3.0% from year ago levels.

- Core goods prices rose 0.5% (M/M) following three straight months of declines. Price increases were widespread across core goods categories, led by used cars and trucks (+1.0%) and medical care commodities (+0.7%)

- Core services price growth decelerated to 0.1%. Price growth decelerated across other categories and declined for medical care services (-0.2%).

Key Implications

- The level of inflation is the metric to watch for guidance on monetary policy and interest rates. The rebound in price growth in February, however, is less a surprise than a false dawn. The rebound in energy prices in February has been short lived - crude oil prices have fallen again in March and given continued over-supply could continue to fall. Inflation is likely to remain weak through the mid-point of this year, giving the Fed cause to leave rates on hold.

- Core price growth was interesting this month, reversing the typical dichotomy of falling goods prices and accelerating service prices. This month it was the opposite – core goods prices rose, while core services showed slower growth. It's much too early to call this a trend. Core goods price growth will remain subdued, knocked down by falling energy prices and the higher dollar. But, core services are a much larger category (58.8% of the total basket compared to 19.5% for core goods). Should core service price growth also remain weak, it suggests an even softer inflation profile than currently anticipated.

- The level of unemployment has not been much of a factor in current inflation dynamics, but that does not mean it should be ignored altogether. As the unemployment rate pushes towards 5.0%, job growth will begin to eat into "shadow" labor market slack – drawing more marginally attached people into the workforce and contributing to greater full-time job growth. This will eventually give rise to faster wage growth, keeping a floor under inflation. For more on the outlook for job growth, inflation and monetary policy please see our Quarterly Economic Forecast.

James Marple,
Senior Economist