

April 12, 2022

Surging gas prices lifted US inflation in March

- Headline CPI jumped to 8.5% year-over-year in March, led by surging gas prices
- Core prices also firmed, although the 0.3% one-month increase from February was the smallest in 6 months
- Rising capacity constraints, firming inflation and wage pressure to prompt a bigger move from the Fed in May

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As expected, a surge in gasoline prices driven by oil supply concerns after Russia invaded Ukraine has pushed the US year-over-year CPI growth rate to 8.5% in March, highest in over 4 decades. Growth in energy prices was up to 32% above last year and accounted for almost a quarter of the headline gain. But food prices also grew faster, up 8.8% from year ago or another bigger 1% from February. Raw commodity prices for energy and agriculture products have since partially reversed invasion-led surges and we expect headline CPI growth edged lower to-date in April.

Core inflation outside of food and energy products in the US grew 6.5% year-over-year in March, or 0.3% from February. That month-over-month increase was the smallest in 6 months thanks to a 3.8% decline in used car prices from February. Growth in home rents however has accelerated after slowing during the pandemic, rising 4.5% year-over-year pushing shelter to be the biggest contributor to core CPI growth. Strong housing demand will continue to put a floor under rent price growth in the near-term. But price pressure also continues to broaden. By our count, around 80% of the consumer basket (ex-shelter) was seeing price growth that was faster than the Fed's 2% target in March versus pre-pandemic levels, almost double the average share over 5 years pre-pandemic. With labour markets also looking extremely tight – and wage growth accelerating – the Fed will move more quickly to withdraw monetary policy stimulus. We expect the Fed to follow up the 25 basis point increase in the fed funds target range in March with a 50 bps move in its next meeting in May.

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U.S. CPI Growth

	Jan-21	Feb-22	Mar-22	Mar-22
	MoM % change (SA)			YoY % change
Headline	0.6	0.8	1.2	8.5
Food	0.9	1.0	1.0	8.8
Energy	0.9	3.5	11.0	32.0
Core	0.6	0.5	0.3	6.5
Goods ex food and energy	1.0	0.4	-0.4	11.7
<i>Used cars and trucks</i>	1.5	-0.2	-3.8	35.3
Services ex energy	0.4	0.5	0.6	4.7
<i>Car and truck rental</i>	-7.0	3.5	11.7	23.4

Decline in vehicle prices slowed core US CPI in March

