

March 10, 2022

U.S. price growth accelerating ahead of Russian invasion

- Headline inflation accelerated to 7.9% year-over-year in February, the highest since the early 1980s
- Invasion-led surge in oil and agriculture commodity prices drive near-term inflation outlook
- Broadening price pressure and rising inflation expectations will prompt Fed rate hike next week

The increase in the year-over-year headline inflation rate in February, to 7.9% from 7.5% in January was driven by higher food prices in conjunction with another acceleration in core (ex-food & energy) price growth to 6.4%. Food prices jumped another 1% from January with all six major grocery store groups posting gains and were up 7.9% from a year ago. Energy prices growth actually slowed slightly on a year-over-year basis but will surely surge higher again given a 14% jump in gasoline prices the first week in March – driven by skyrocketing oil prices as Russian invasion of Ukraine raise concerns about global oil supply. Prices for new and used vehicles were little changed from January but still up sharply from a year ago.

Energy price increases will drive near-term inflation rates higher – but pressures also continue to broaden. Growth in the shelter prices firmed again, led by higher rent costs and accounting for a fifth of the overall headline year over year gain. And even excluding rents, over 80% of the consumer basket was seeing price growth that was faster than the Fed's 2% target. Near-term geopolitical headwinds have driven global commodity prices higher. Meantime, transport challenges also risk prolonging supply chain disruptions that have been curtailing global production throughout the course of the pandemic. But that will only add to firming inflation pressures, and market inflation expectations have jumped higher along with oil prices (approaching 3.5% over 5 years). In short, inflation pressures are too strong and labour markets too tight to justify current emergency low levels of interest rates. We expect the Fed to start hiking rates at its March meeting next week.

U.S. CPI Growth

	Dec-21	Jan-22	Feb-22	Feb-22
	MoM % change (SA)			YoY % change
Headline	0.6	0.6	0.8	7.9
Food	0.5	0.9	1.0	7.9
Energy	0.9	0.9	3.5	25.6
Core	0.6	0.6	0.5	6.4
Goods ex food and energy	1.2	1.0	0.4	12.3
Used cars and trucks	3.3	1.5	-0.2	41.2
Services ex energy	0.3	0.4	0.5	4.4
Car and truck rental	-2.7	-7.0	3.5	24.3

Oil prices and inflation expectations soar following Ukraine invasion



Source: Haver, Chicago Mercantile Exchange, RBC Economics

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