

US inflation eased in February

Article

The news: US inflation continued to ease in February, due mainly to falling energy prices.

- The consumer price index (CPI) rose 0.4% month-over-month (MoM) and 6.0% year-over-year (YoY), [per](#) the Labor Department—exactly in line with economists’ expectations.
- But core CPI, which excludes energy and food costs, increased by 0.5% MoM, the most since September 2022.

The good: There are signs that the Fed’s much-hoped-for “soft landing” could be in sight.

- **February saw the smallest 12-month increase in CPI since September 2021.** That's a good indication that the Fed's aggressive rate hikes have helped bring inflation down.
- **Grocery price increases are slowing.** Food at home prices rose 0.3% MoM in February, down from a 0.4% MoM increase in January. Prices for meat, poultry, fish, and eggs fell 0.1% MoM, helped by a 6.7% drop in the cost of eggs.
- **The labor market is still incredibly tight.** There are still roughly 1.9 jobs available for every worker looking, per the Bureau of Labor Statistics, which has led many employers to hike wages and improve benefits, especially in the [retail and hospitality](#) sectors.

The not-so-good: Other indicators point to inflation remaining stubbornly high, adding to the pressures faced by consumers and raising the possibility of more aggressive action from the Fed.

Core inflation has ticked up in recent months.

- Core CPI's annual growth rate hit 5.2% for the past three months, a significant increase from the 3.1% seen for the last three months of 2022.
- Some of those gains will eventually reverse once core CPI reflects the current housing market, but rising prices for other categories, including recreation, household furnishings, and airline tickets, show that the price pressures facing households are yet to meaningfully ease.

Real wages—and consumer buying power—are falling.

- Real average hourly earnings declined 0.1% MoM and 1.3% YoY in February, [per](#) the Labor Department.

Wholesale used car prices trended upward in February.

- Prices went up 4.3% MoM in the biggest February jump since 2009, [according to](#) the Manheim Used Vehicle Value Index.
- The increase could cause retail used car prices to reverse their decline and fuel inflation.

The big takeaway: While consumer spending has stayed relatively resilient despite inflationary pressures and economic uncertainty, the relatively strong inflation report coupled with **Silicon Valley Bank's [collapse and the ensuing fallout](#)** could drive households to be even more cautious with their spending.

That in turn could compound the difficulties many retailers are already facing, as shoppers cut back on discretionary purchases and trade down to cheaper products (or competitors) to stretch their budgets further.

US Adults Experiencing Financial Stress due to Inflation, by Household Income, May 2022

% of respondents



Source: The Financial Health Network, "Financial Health Pulse 2022 U.S. Trends Report," Sep 7, 2022

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