

Lukewarm February CPI Expected to Heat up in March

This morning's release of the Consumer Price Index (CPI) indicated the pace of inflation held at a moderate level, with headline CPI rising +0.3% in February and +2.4% year over year, matching both median forecasts. Shelter costs, making up over a third of the overall index, continued to ease, increasing just +0.2% in February and +3.0% for the year.

Overall energy prices rose +0.6% in February, with gasoline up +0.8%. By contrast, pump prices were down -3.2% in January. Food prices continued to climb, up +0.4% for the month and +3.1% year over year. *The optics of rising food and pump prices, which affect most Americans, make inflation feel worse than the report suggests.*

On an annual basis, core CPI, which excludes food and energy, rose a modest +0.2% last month after a +0.3% January gain. The annual core pace held steady at +2.5%, equaling *the slowest core pace since 2021.*

Core goods prices were up +0.1% with cost of new cars *unchanged* and used cars down -0.4%. Core services prices slowed from +0.4% to +0.3%, driven largely by benign residential rents (+0.1%). Supercore services, which excludes housing, rose by just +0.35% in February after a +0.59% January gain.

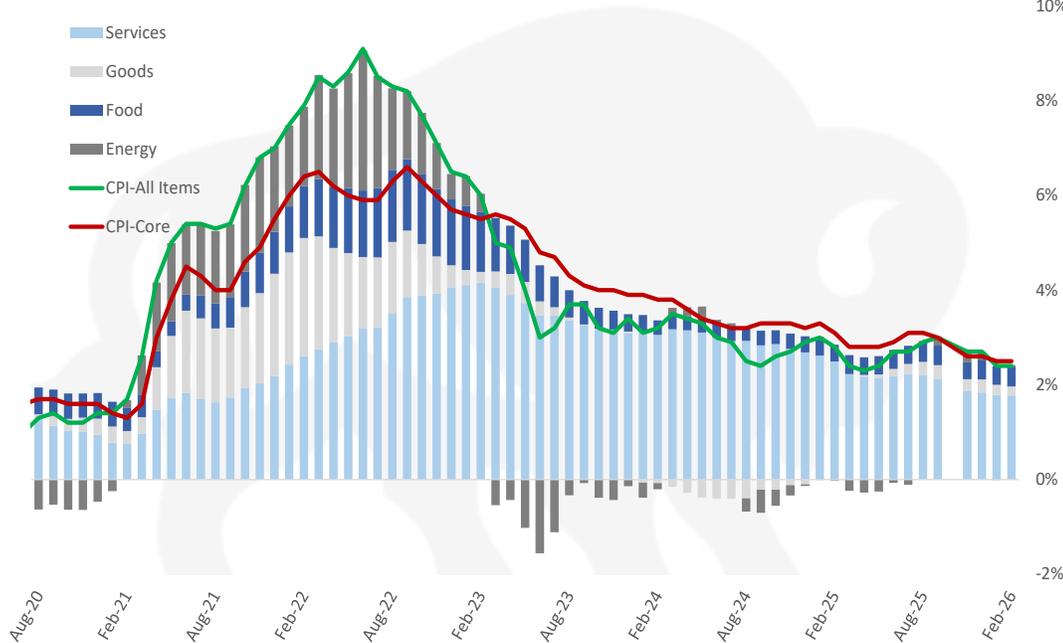
Notable category increases last month were found in rental cars (+2.7%), airfares (+1.4%), lodging away from home (+1.0%) and medical care services (+0.6%). There were notable declines in health insurance (-1.1%), prescription drugs (-0.2%) and vehicle insurance (-0.3%).

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Consumer Price Index (Year-over-Year Percent Change)



The optics of rising food and pump prices, which affect most Americans, make inflation feel worse than the report suggests.

Source: Bureau of Labor Statistics

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However, the inflation story has evolved considerably since the survey was taken. February CPI data captures the period before the Iran war pushed crude prices sharply higher. Early March data shows gasoline spiking by nearly 20%. Thus, energy driven cost pressures are poised to halt the disinflation progress that had asserted itself over the prior three months. CPI will be higher in March and April. Whether the rise in prices continues into summer will depend on how the war unfolds.

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Today's release might normally have granted Fed officials the latitude to ease rates in the coming months, but expected energy pressure resulting from the evolving conflict will keep the Fed on hold longer.

Bond yields are higher in early trading in response to a rise in crude oil prices. Stocks are mixed.

Market Indications as of 9:26 A.M. Central Time

DOW	Down -369 to 47,388 (HIGH: 50,188)
NASDAQ	Up 41 to 22,738 (HIGH: 23,958)
S&P 500	Up 6 to 6,788 (HIGH: 6,979)
1-Yr T-bill	current yield 3.58%; opening yield 3.54%
2-Yr T-note	current yield 3.63%; opening yield 3.59%
3-Yr T-note	current yield 3.65%; opening yield 3.61%
5-Yr T-note	current yield 3.77%; opening yield 3.73%
10-Yr T-note	current yield 4.19%; opening yield 4.16%
30-Yr T-bond	current yield 4.83%; opening yield 4.79%

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