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Economic Research

Economic Briefing

US inflation slows in February

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US consumer prices rose by just 0.2% in February compared to the previous month. The core rate was also surprisingly weak at 0.2%. This data should provide some relief after the sharp rise in prices in January. However, the tariffs should soon cause a surge in inflation. We therefore do not expect any further interest rate cuts in the near future.

The data

US consumer prices rose by 0.2% in February compared to the previous month. The year-on-year rate fell from 3.0% to 2.8%. The more important core rate, which excludes volatile prices for energy and food, was also 0.2% on the previous month, while the annual rate of change fell from 3.3% to 3.1%. The data were consistently below consensus expectations of a monthly increase of 0.3% both for the headline and the core index.

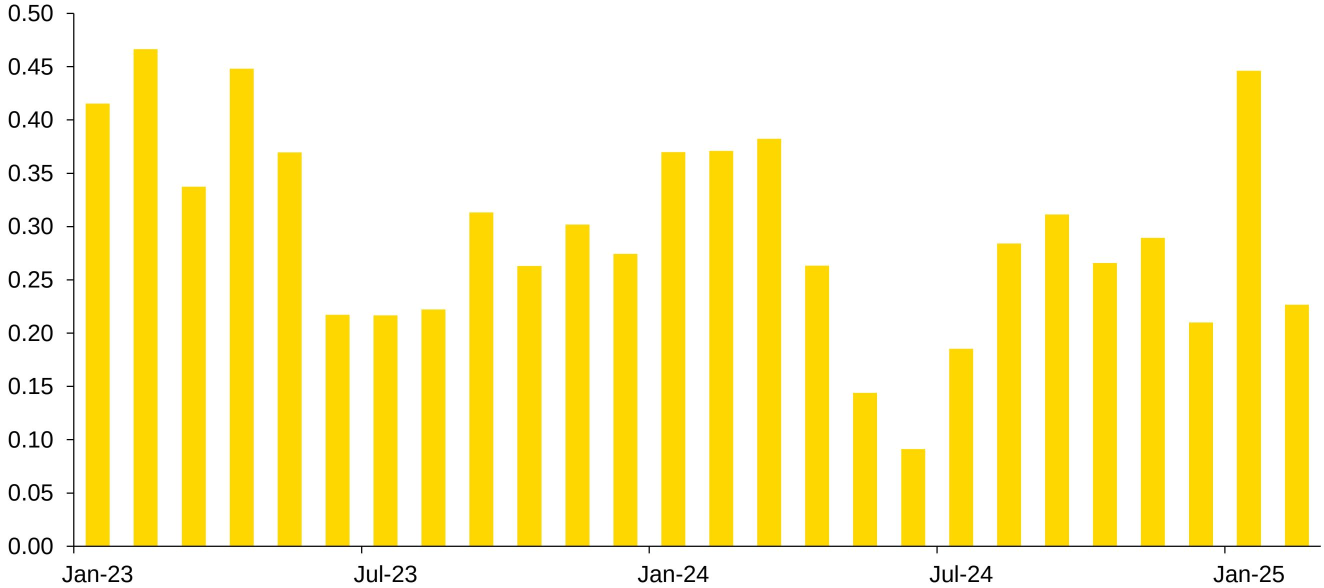
Background

Following the surprisingly strong rise in US consumer prices in January, price pressure in February was lower than expected and similar to the months at the end of 2024. This also applies to the important core rate (Chart 1). Inflation eased for both core services (month-on-month rate 0.3% after 0.5%) and core goods (0.2% after 0.3%).

The figures are in line with our assessment expressed a month ago that the price surge in January was inflated by a special effect. Many companies raise their prices in January, especially when they are faced with significantly rising costs. The data should actually be adjusted for such seasonal influences. However, this phenomenon did not occur to the same extent during the phase of price stability before the pandemic, so it may not be fully factored out.

Chart 1 - Core rate slowed in February

Consumer prices excluding energy and food, month-on-month change in %



Source: BLS, S&P Global, Commerzbank Research

Some progress, but the Fed will wait and see

After the unfavorable figures in January, the February data are likely to be more to the Fed's liking. Policymakers hope that inflation will start to move down again and not stagnate above the Fed's target. However, this does not mean that the inflation risks have been eliminated. After all, the price-boosting effects of the tariffs have yet to be seen. We therefore continue to expect inflation to pick up again in the coming months. The Fed will wait until there is more clarity on this front. It will therefore leave key rates unchanged at next week's meeting.

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