Consumer prices around the U.S. rise at fastest rate since 2008

Consumer prices rose in the U.S. at the fastest rate last month since the Great Recession, firing up concerns from Wall Street to Washington about inflation and its potential damage to investor portfolios and American pocketbooks.

The Consumer Price Index, which tracks the prices of everything from cars to clothing, jumped 0.8% in April, the Labor Department said Wednesday. Over the past 12 months, prices have increased 4.2% — the fastest rise since September 2008.

Used car prices led the surge, with a record 10% increase. But the gains were broad-based. Core inflation, which excludes volatile food and energy, jumped 3% over the past year.

“Almost all the gain was driven by outsized increases in sectors that are seeing demand surge as restrictions ease,” Michael Pearce, chief U.S. economist at Capital Economics, said in a research note. “The rise in airfares and hotel prices is so far simply reversing the sharp declines in prices seen earlier in the pandemic. But car rental prices have surged well above pre-pandemic levels, reflecting limited supply.”

With more consumers dining out and traveling this summer, pent-up demand could drive up prices in other leisure categories, Pearce noted.

Get the goods

Several goods-producing sectors saw price increases, led by used vehicles, whose “staggering” 21% annual increase is largely due to the fallout from semiconductor shortages, noted Barclays. As supply-chain issues slow the production of new cars, impatient auto shoppers are turning to used vehicles, driving up their costs. Prices also rose 0.3% for clothing, 0.5% for new cars and 0.6% for medical care.

Other consumer goods are likely to see price increases in coming months, Barclays predicted, thanks to “the recent increase in commodity and international shipping prices.”

“We have not changed our view that much of the rise in inflation this year is likely to prove transitory, driven by base effects, the strong demand for goods, unprecedented fiscal support and personal transfers, pandemic-influenced shortages, and the gradual reopening of the economy,” the investment bank wrote.

Price rises spook stocks

The acceleration in prices has been building for months, but Wednesday’s figures unsettled financial markets, raising concerns that it could weaken the economic recovery from the pandemic recession. Stocks fell for the second day in a row, with the broad-based S&P 500 index losing 2.1%. The Dow dropped 2% the day, while the technology-heavy Nasdaq fell 2.7%.

The Federal Reserve, led by Chair Jerome Powell, has repeatedly expressed its belief that inflation will prove temporary as supply bottlenecks are unclogged and parts and goods flow normally again. Last month, Powell suggested at a news conference that Fed officials expect inflation to move above its 2% annual target over the next few months, an increase that would make up for persistently low inflation over the last decade.

However, some economists worry that inflation could prove longer-lasting as consumer demands for goods and services outpaces the economy’s capacity to produce them.

“The pandemic has made business much harder to do; business surveys have reported the worst supplier delivery delays on record in recent months,” Bill Adams, senior economist at PNC, said in an email. “With supply chains more unreliable, manufacturers, wholesalers, and retailers are scrambling to add buffers to their inventories; when everyone does this at once, supply chain problems get even worse. ”

Capital Economics expects inflation to hit 5% over the coming months, with core inflation hitting 3.5%.

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