

2026-5-1

Key inflation gauge jumps to highest level in 3 years

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The Denver Gazette · 1 May 2026 · C4 · The Associated Press

WASHINGTON · A key inflation measure jumped in March as gas prices soared, the latest sign that the Iran war is pushing up the cost of living and delaying any interest rate cuts by the Federal Reserve. An inflation gauge monitored by the Fed rose 0.7% in March from February, up sharply from the previous month, the Commerce Department said Thursday. Compared with a year ago, prices rose 3.5%, the biggest increase in almost three years.

Excluding the volatile food and energy categories, core inflation rose 0.3% in March from February, and it was 3.2% higher than a year earlier. The annual figure is above February's reading of 3%.

The jump in gas prices has pushed inflation further away from the Fed's 2% target. Outgoing Fed Chair Jerome Powell signaled at a news conference Wednesday that the central bank would likely be on hold for months as it evaluates the impact of the Iran war. The Fed has kept its key short-term interest rate unchanged after cutting it three times last year. The central bank typically keeps rates elevated — or even raises them — to combat higher inflation.

At the same time, Thursday's report showed that Americans' incomes — wages, business income, and government benefits — increased 0.6%, a solid increase but slower than the rate of inflation, for the second straight month.

The decline illustrates the other risk created by higher gas prices: The extra costs will likely siphon away spending that would have gone to other products and services, potentially slowing the economy. For now, consumers have been bolstered by healthy tax refunds, which were lifted by last year's tax cut legislation, but much of that benefit is being eaten up by higher prices at the pump.

"A year that was set to benefit from tail winds associated with a large tax cut and boom in artificial intelligence-led investment has been partially derailed by the impact of what as of today is an adverse and growing supply shock caused by the war in Iran," said Joe Brusuelas, chief economist at RSM, a tax and advisory firm. "Unfortunately, war and the supply shock that ensued has altered the probable growth path this year."

Brusuelas now expects the economy to expand just 1.7% this year, down from an earlier estimate of 2.4%.

Gas prices jumped nearly 21% in March from the previous month, the report said, while grocery prices actually slipped 0.1%. Clothing costs climbed 1% just in March.

"We're very well aware that people are experiencing higher gas prices all over the country now," Powell said Wednesday. "And that hurts."

Thursday's report also showed that consumer spending soared 0.9% last month, with most of the increase reflecting the sharp jump in prices. But it also indicates Americans lifted their spending a bit even after adjusting for inflation, a sign of consumer resilience.

The economy expanded at a modest 2% annual rate in the first three months of the year, the Commerce Department also said Thursday.