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## The conflict in Iran drives a sharp rebound in headline inflation, reaching 3.29% in March

The latest Consumer Price Index (CPI) report indicates that headline inflation increased by 0.87% month-over-month, reaching 3.29% year-over-year (YoY) in March, up from 2.43% in February, surpassing predictions and representing a nearly two-year high. The acceleration was largely driven by energy prices, reflecting disruptions in Middle East oil supply, following the escalation of the conflict involving Iran. According to BLS, energy accounted for 75% of the total monthly increase in the CPI. Core inflation, however, rose at more modest pace of 0.2% over the month and reached 2.60% y/y, suggesting that underlying inflationary pressures have not intensified at the same pace. This indicates that pass-through from higher energy prices have been so far limited, although second round effects, particularly through transportation costs and services, could materialize with lag if elevated energy prices persist.

This divergence between headline and core inflation suggests that the recent inflationary rebound is primarily driven by a supply-side shock especially following Iran's obstruction of the Strait of Hormuz, a route through which approximately one-fifth of the global oil and gas supply regularly transits, rather than a broad-based acceleration in prices.

**Figure 1. CPI inflation evolution**

Inflation During:	February-26		March-26		Annualized 3MMA		
	Monthly	Annual	Monthly	Annual	Jan-26	Feb-26	Mar-26
<b>Headline</b>	<b>0.27%</b>	<b>2.43%</b>	<b>0.87%</b>	<b>3.29%</b>	<b>2.28%</b>	<b>2.54%</b>	<b>3.57%</b>
<b>Core</b>	<b>0.22%</b>	<b>2.47%</b>	<b>0.20%</b>	<b>2.60%</b>	<b>1.95%</b>	<b>2.41%</b>	<b>2.80%</b>
Services less Energy	0.38%	2.92%	0.37%	3.05%	1.74%	2.69%	4.01%
Services less Rent	0.28%	3.30%	0.33%	3.36%	2.78%	3.12%	3.54%
Rent of Shelter	0.19%	2.92%	0.30%	2.97%	2.32%	2.80%	2.91%
Non Durable Goods	0.47%	1.73%	2.59%	4.90%	2.97%	2.75%	5.40%
Durable Goods	-0.46%	0.06%	0.08%	0.05%	0.07%	-2.64%	-3.94%
Food	0.39%	3.14%	-0.01%	2.75%	2.62%	3.88%	3.64%
Energy	0.63%	0.40%	10.87%	12.59%	5.64%	1.07%	12.62%
Gasoline	0.80%	-5.62%	21.23%	18.92%	7.00%	-3.43%	21.22%

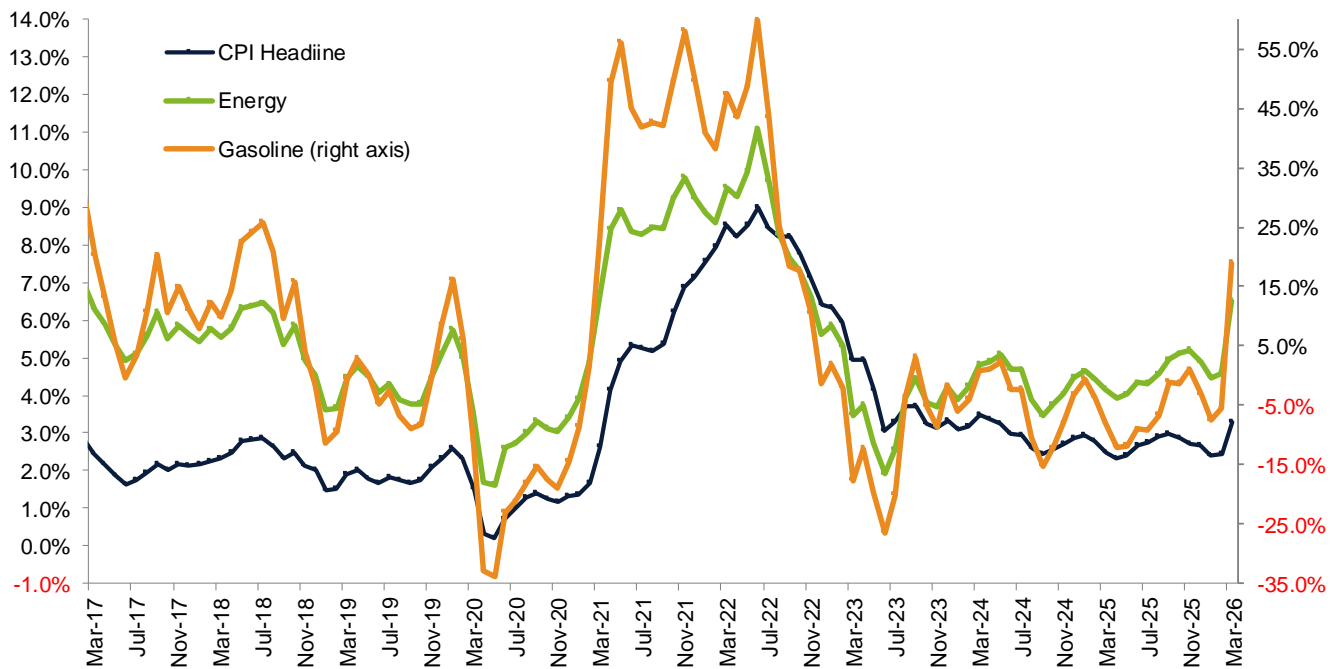
Source: HR Ratings with seasonally adjusted information from the U.S. Bureau of Labor Statistics, retrieved from FRED.



Figure 2 illustrates the magnitude of the energy shock, with energy costs increasing by 10.9% in March, surpassing the inflationary pressures recorded during the onset of the Russia-Ukraine conflict in March 2022 (+9.0%). Gasoline prices surged by 21.2% in March. The Bureau of Transportation Statistics reports that the U.S. national average for regular gasoline ranged from US\$3.07 to US\$3.12 per gallon, as refineries transitioned to pricier summer-blend fuel. There are regional variances; the West Coast hit US\$4.11 per gallon, while the Midwest reached US\$2.95 per gallon. Transportation service charges increased by 0.6% for the month and 4.0% year-over-year.

On the other hand, housing prices rose 0.3% in March. Tenant's and household insurance costs were up 0.9% for the month and are up 7.4% from a year ago.

**Figure 2. Annual Inflation in U.S. (3MMA)**



Source: HR Ratings with data from the US Bureau of Labor Statistics.  
 \*The labels correspond to the last value for annual inflation.

We anticipate that market volatility will persist until a resolution in the conflict is reached. While energy prices may remain elevated in the near term, their direct impact on inflation is likely to be temporary. However, persistence of core inflation, particularly within services, complicates the Federal Reserve’s policy outlook.

The combination of resilient labor market conditions, ongoing consumption strength, and sticky services prices suggests that the disinflation process may remain gradual. In March, employers created 178,000 jobs, and the unemployment rate decreased to 4.3%. In this context, the Fed is likely to maintain a cautious stance, prioritizing evidence of sustained progress in core inflation before considering policy easing. The recent inflation data reinforces the notion that the path toward the 2.0% target remains uneven and subject to upside risks.

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