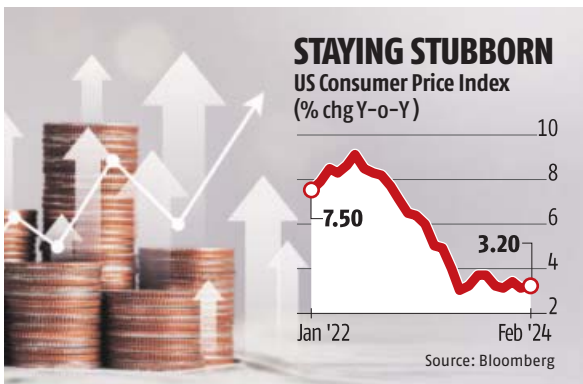


US inflation up 3.2% in Feb

Unexpected increase to be scanned by Fed as it weighs interest rate cut



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Underlying US inflation topped forecasts for a second month in February as prices jumped for used cars, air travel and clothes, reinforcing the Federal Reserve's cautious approach to cutting interest rates.

The consumer price index (CPI) climbed 0.4 per cent from January and 3.2 per cent from a year ago, Bureau of Labor Statistics figures showed. The so-called core consumer price index, which excludes food and energy costs, increased 0.4 per cent from January, according to government data out Tuesday. From a year ago, it advanced 3.8 per cent.

After a brisk January reading, the report adds to evidence that inflation is proving stubborn, which is keeping central bankers wary of easing

policy too soon. Chair Jerome Powell suggested last week that he and his colleagues are getting close to the level of confidence they need to start lowering rates, but some officials have expressed they'd like to see a broader pullback in prices first.

The unexpected increase is set to be scrutinised by Fed as it weighs interest rate cuts. This is the last major inflation report the Fed will see before its meeting on March 20.

Core CPI over the past three months rose an annualised 4.2 per cent, the most since June.

"This will probably be seen as a reason to keep policy on hold a while longer," said Kathy Jones, Charles Schwab's chief fixed-income strategist. "Through the volatility, the downtrend in inflation seems to be leveling off and the Fed would like to see it continue to move lower before easing rates."