

Inflation hits 4.2% in May, highest in over 3 years as energy prices soar

Courtenay Brown | Jun 10, 2026



A fuel nozzle at a 76 gas station in San Francisco, California, US, on Wednesday, May 13, 2026. The worst US inflation in years is once again eating away at Americans' paychecks, as rising gasoline and grocery prices threaten to undermine household spending. Photographer: David Paul Morris/Bloomberg

Inflation hit the highest rate in over three years in May, as the economic fallout from the Iran conflict ripples through the U.S. economy.

Why it matters: Inflationary pressures tied to the war keep building, squeezing household budgets and raising the risk that interest rates stay higher for longer.

By the numbers: The Consumer Price Index rose 4.2% in the 12 months through May — up from 3.8% in April and marking the highest annual inflation rate since April 2023.

On a monthly basis, prices rose 0.5%, slowing a touch from the 0.6% rate in April.

Zoom in: Much of the increase reflected higher energy prices as oil markets continued to react to disruptions tied to the conflict in the Middle East.



Core CPI, which excludes food and energy prices and is closely watched by economists as a measure of underlying inflation, was more subdued.

Core prices rose 2.9% from a year earlier, compared with 2.8% in April.

On a monthly basis, core CPI increased by 0.2%, about half the rate seen in the previous month.

Between the lines: Economists have been watching for signs that rising energy costs are beginning to spread beyond the gas pump.

As businesses face higher transportation, shipping and production costs, they may increasingly pass those expenses on to consumers.

May's report suggests those broader spillover effects remain limited for now, even as headline inflation accelerates.

Driving the news: The report comes as tensions between Washington and Tehran appear to escalate further.

In a Truth Social post on Wednesday morning, President Trump warned that Iran would "have to pay the price" for taking "too long to negotiate" a nuclear deal.

The big picture: The inflation report arrives at a pivotal moment for the Federal Reserve.

At Kevin Warsh's first policy meeting since taking the helm of the Federal Reserve, policymakers next week are widely expected to leave interest rates unchanged but will offer fresh clues about where they see policy heading next.

A key question is whether officials adopt a more two-sided message, signaling that their next move could be either up or down depending on how the economy evolves.

Some Fed officials have spent recent weeks pushing back on the assumption that the next move in rates will be a cut, arguing that inflation remains too elevated to take additional tightening off the table.