

CPI REPORT SHOWS ONLY MINOR TARIFF IMPACTS

June 2025

Headline and core consumer prices rose 0.1% in May, taking the Consumer Price Index (CPI) from 2.3% to 2.4% and keeping core CPI at 2.8%.

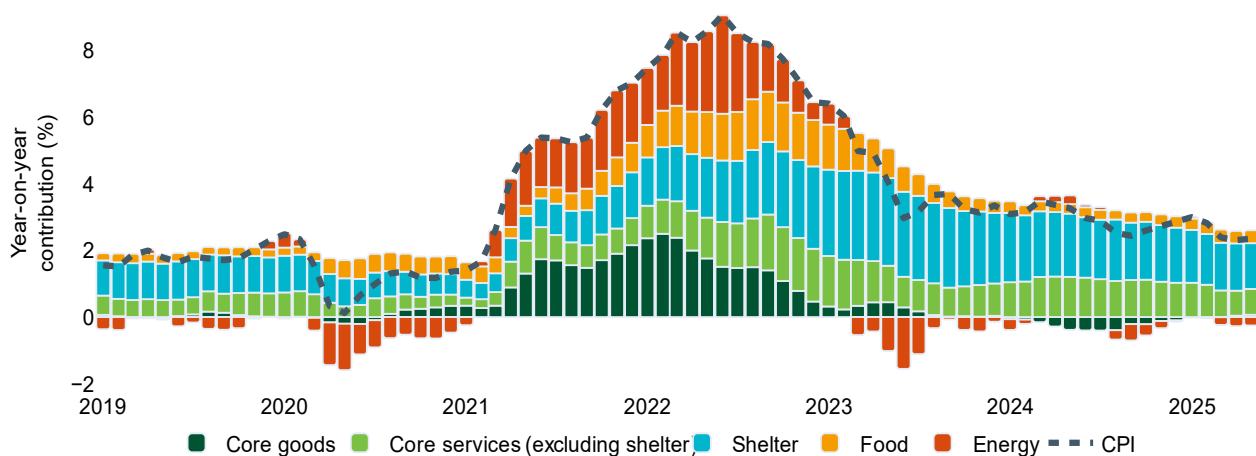
Tariffs continued to have a muted impact on overall inflation, but they started showing signs of impact in a few minor categories. In our view, continued easing in certain services components may keep the Federal Reserve (the Fed) on track to cut rates later this year.

Energy and core goods prices help keep CPI contained

Energy prices fell -1% in May, driven by a -2.6% fall in gasoline and -1% decrease in natural gas utility costs.

Core goods prices were flat in May, indicating muted overall pressure from tariffs. New and used vehicle prices fell -0.3% and -0.5%, respectively. Elsewhere, food prices were up 0.3%, driven by groceries and restaurant costs.

FIGURE 1: ENERGY AND CORE GOODS INFLATION REMAINS MUTED



Source: Bureau of Labor Statistics, Macrobond, Insight Investment, June 2025. Charts are for illustrative purposes only.

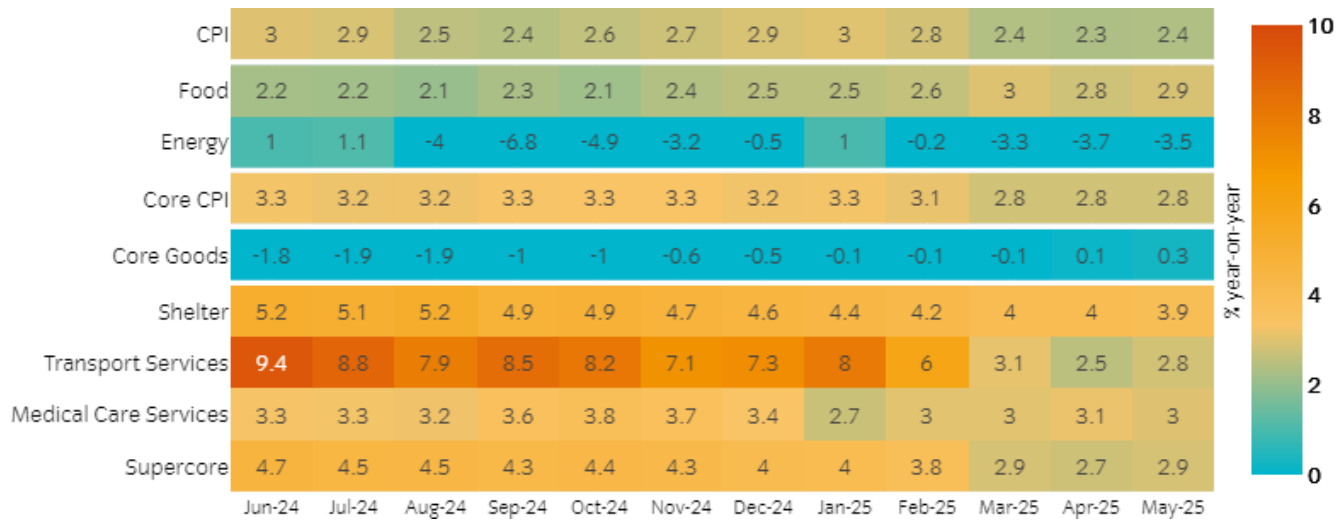
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The “stickier” core services segments were mixed.

Shelter (the largest segment of the index) continued to gradually ease, slowing from 4% to 3.9% year-on-year (YoY), with rents continuing to ease gradually. Excluding shelter, headline CPI was 1.5% YoY, below the Fed’s target.

Elsewhere, “supercore” CPI (which additionally excludes the rental components of shelter) rose from 2.7% to 2.9% YoY. It was driven by some strength in public transport, albeit some areas such as airline fares (which fell -2.7% in May) remained weak.

FIGURE 2: “STICKY” SERVICES COMPONENTS CONTINUE TO EASE

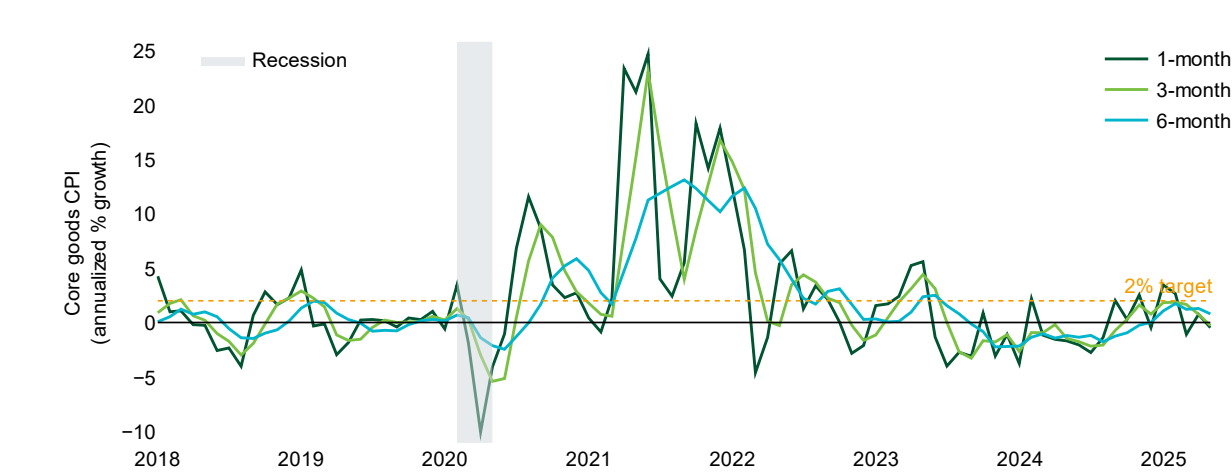


Source: Bureau of Labor Statistics, Macrobond, Insight Investment, June 2025. Charts are for illustrative purposes only.

Tariffs show little overall impact, but there are signs in some categories

Core goods, the most tariff-sensitive component of CPI has remained well-behaved, at least for now. We are yet to see clear momentum on a one-, three-, or six-month annualized basis (Figure 3). We believe it may take until at least the summer for tariffs to materially influence the broader inflation picture.

FIGURE 3: TARIFFS ARE NOT YET IMPACTING CORE GOODS INFLATION



Source: Bureau of Labor Statistics, Macrobond, Insight Investment, June 2025. Charts are for illustrative purposes only.

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However, there were initial signs of tariff inflation within some minor categories. For example, auto parts and equipment prices rose 0.9% in May (its highest monthly gain since September) while canned fruits and vegetables were up 1.9% in May, potentially reflecting the impact of aluminum tariffs.

The Fed may still be on track to cut rates this year

We believe cyclical disinflationary momentum remains in place. Three-month annualized core CPI was 1.7%, below the Fed's target and the slowest since July 2024. We expect this will keep the Fed on track to resume its rate-cutting cycle later this year.

We will continue to monitor tariff inflation risks, but we expect the Fed to be mindful and "look through" them to the extent they deliver one-time price rises rather than a sustained inflationary impulse.

About Insight Investment

Insight Investment is a leading global investment manager and fixed income specialist firm within BNY Investments.

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MARK-754136-2025-06-11