

LITTLE SIGN OF TARIFF INFLATION, SO FAR

May 13, 2025

Headline and core consumer prices rose by 0.2% in April, better than market expectations of 0.3%. This took headline CPI from 2.4% to 2.3% year-over-year (YoY), its slowest level since February 2021, while keeping core CPI at 2.8% (YoY).

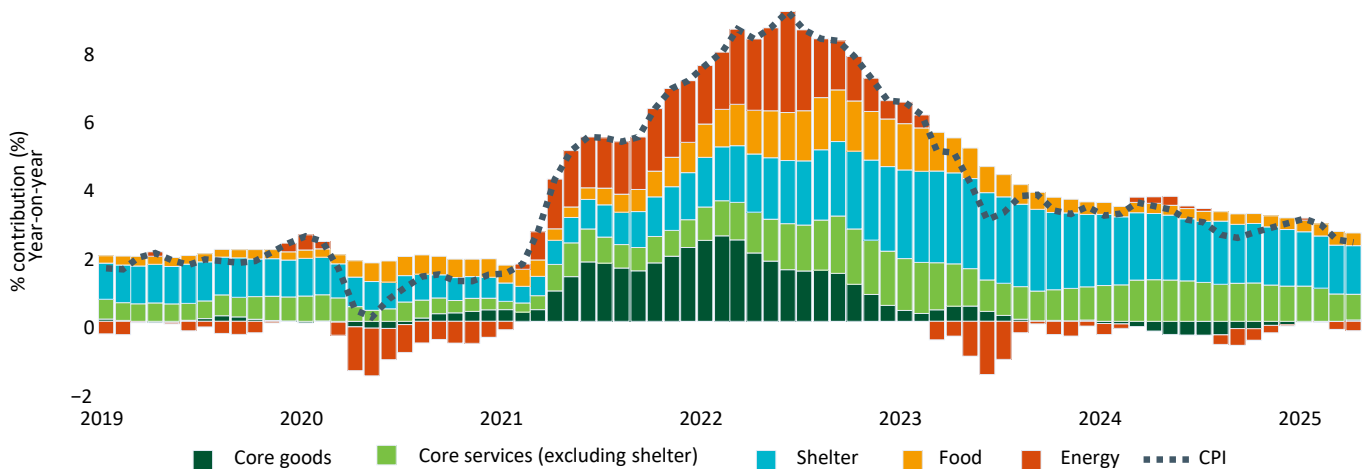
We expect the Federal Reserve (the “Fed”) to be encouraged by ongoing progress in the “stubborn” core services categories of the index, while there was little evidence of tariff inflation.

LITTLE SIGN OF TARIFF INFLATION

Core goods prices were muted at 0.1% in April, even in the most tariff-sensitive categories such as apparel, home furnishings and toys.

Elsewhere, energy prices were up 0.7%, driven by higher natural gas and electricity prices. Food prices also eased, with eggs prices down 12.7%, this was the first monthly reading where egg prices have fallen this year following avian flu-related supply disruptions.

FIGURE 1: HEADLINE CPI REACHED ITS LOWEST LEVEL SINCE FEBRUARY 2021¹



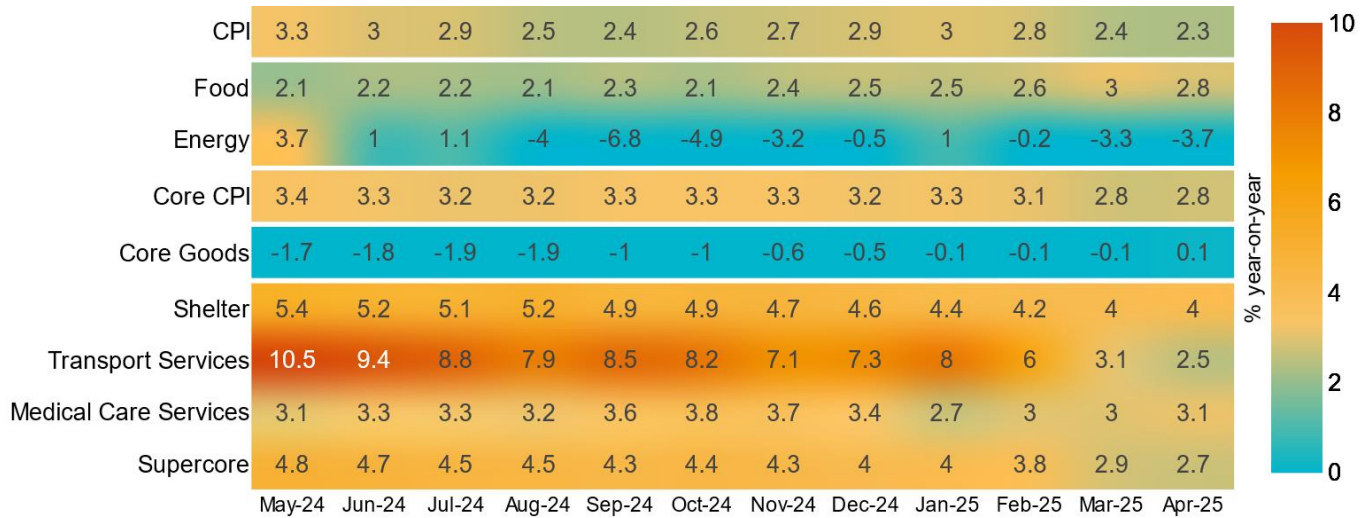
Charts are provided for illustrative purposes only.

Encouragingly the “stickier” core services components of CPI largely continued their disinflationary trends.

Shelter (the largest component of the index) remained at 4% YoY, largely due to stubborn rental inflation. Nonetheless, we believe rents will continue to grind lower over the coming months based on private rental indicators. Excluding shelter, headline CPI was 1.4% YoY, significantly below the Fed’s target.

Elsewhere “supercore CPI” categories (which exclude shelter, food and energy), also showed steady progress, decelerating from 2.9% to 2.7% YoY (Figure 2). Transportation services were flat in April, with airfare prices notably down 2.8% but car and truck rentals up 4.3%.

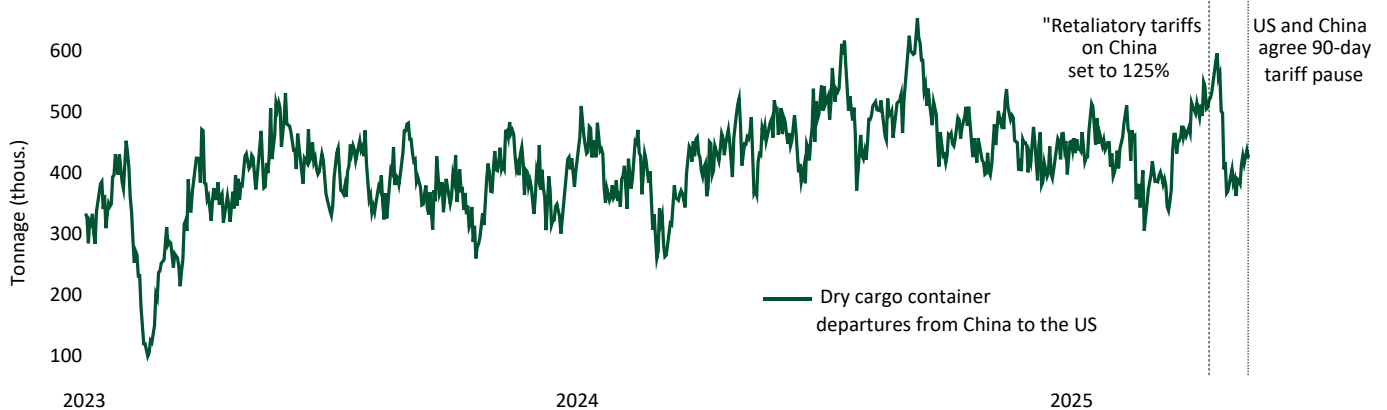
¹ Macrobond, Bureau of Labor Statistics, Insight, May 2025.

FIGURE 2: STUBBORN CORE SERVICES CATEGORIES CONTINUE TO GRADUALLY IMPROVE²

Charts are provided for illustrative purposes only.

TARIFF DELAYS COULD HELP EASE TARIFF PRESSURE

The US and China's recent agreement to pause most tariffs for 90 days will likely delay tariff inflation further, and we anticipate it will stay muted until the summer. In our view, the recent US-China agreement meaningfully reduces the odds of extreme outcomes on the inflation front (Figure 3).

FIGURE 3: A PICK-UP IN CARGO VOLUMES MAY HELP EASE NEAR TERM PRICING PRESSURES FROM TARIFFS³

Charts are provided for illustrative purposes only.

DISINFLATION IS LIKELY TO KEEP THE FED ON TRACK

We believe the Fed will be satisfied that disinflationary trends remain in play and will be minded to "look through" tariff inflation given its likely "transitory" nature. Given the US administration's potentially softening stance toward China and openness to agreements, we expect the Fed will remain on track to carefully continue its cutting cycle this year as economic growth likely moderates.

Therefore, we believe it remains an attractive environment for fixed income.

INVESTMENT VIEWS IN PARTNERSHIP WITH INSIGHT INVESTMENT

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

² Macrobond, Bureau of Labor Statistics, Insight, May 2025.

³ Bloomberg, Insight, May 2025.

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The **Consumer Price Index (CPI)** measures the monthly change in prices paid by U.S. consumers. The Bureau of Labor Statistics (BLS) calculates the CPI as a weighted average of prices for a basket of goods and services representative of aggregate U.S. consumer spending. **Headline CPI** is the raw inflation figure reported through the Consumer Price Index (CPI) monthly. **Core CPI** excludes the more volatile food and energy categories. **Sticky** inflation refers to a persistent economic scenario where prices for goods and services do not adjust quickly to changes in supply and demand dynamics. **Supercore** inflation equals the inflation of a basket of goods and services, minus the food and energy inflation, and minus the housing inflation.

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