INSTANT INSIGHTS

March 12, 2025

CPI Eases Ahead of Tariff Impacts

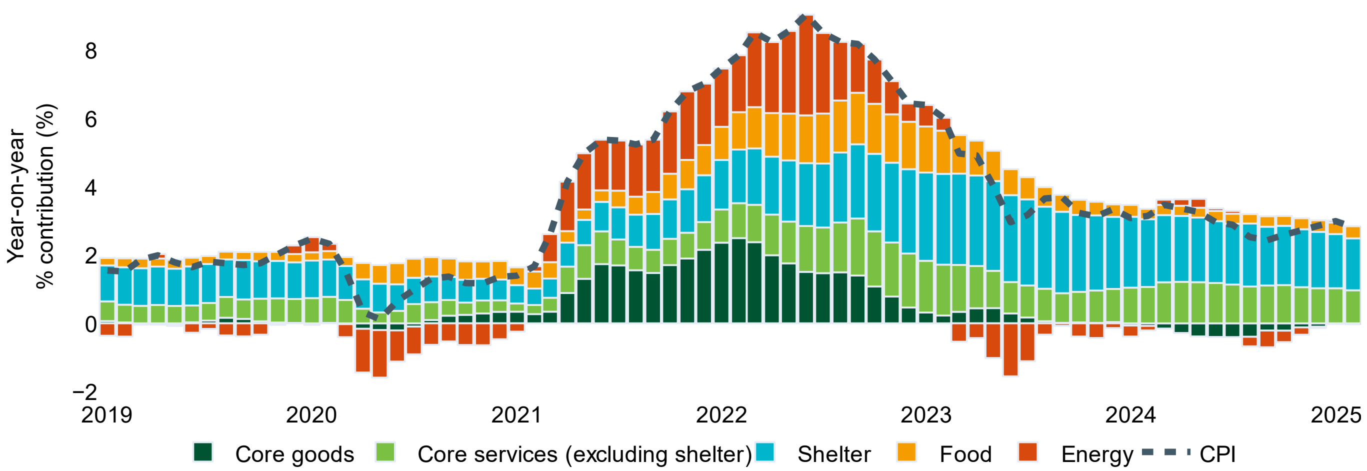
Headline and core consumer prices both rose 0.2% in February, reducing headline CPI from 3% to 2.8% and core CPI from 3.3% to 3.1% year-on-year (YoY), respectively.

Encouragingly for the Federal Reserve (the Fed), most categories eased, with particularly notable progress in stubborn core services sectors, indicating continued disinflationary momentum ahead of tariff impacts. We expect this progress to help keep rate cuts on the table for 2025.

MOST CPI CATEGORIES EASED IN FEBRUARY

Food inflation, particularly groceries, showed less momentum in February, rising 0.2%. Eggs remained the largest driver at 10.4%, albeit this was a slowdown from 15.2% in January. Energy prices also slowed at 0.2% in February with gasoline prices falling 1%, compensating for a 2.5% rise in natural gas prices and a 1% rise in electricity prices, driven by cold weather across much of the US. Core goods inflation was also modest at 0.2% ahead of tariff impacts.

FIGURE 1: MOST INFLATION CATEGORIES EASE IN FEBRUARY[1]



Charts are provided for illustrative purposes only.

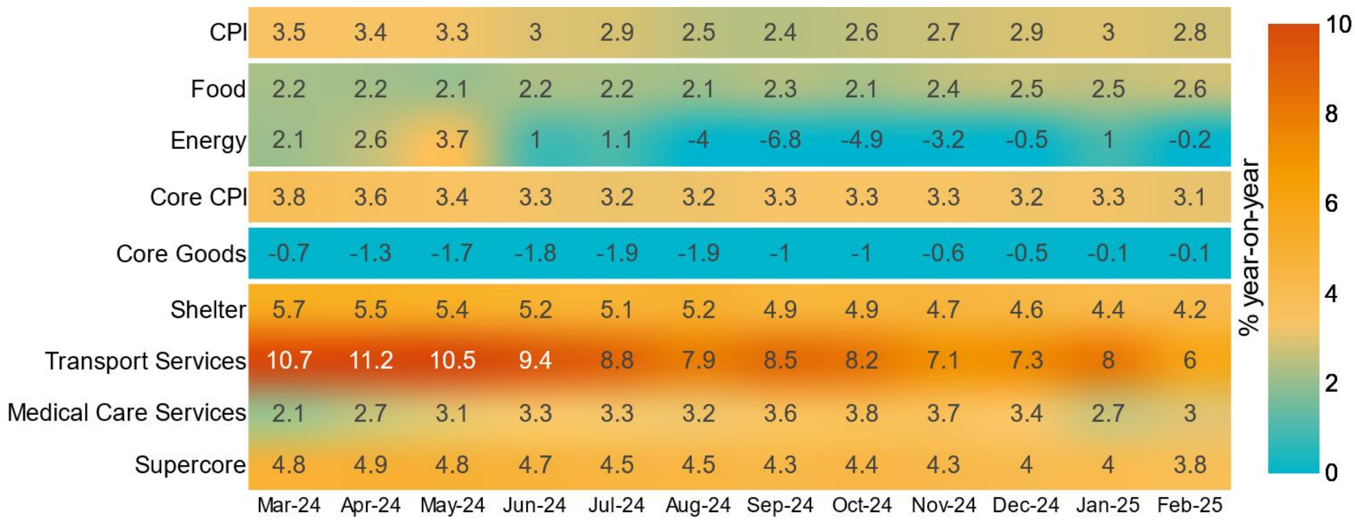
Encouragingly, the “sticky” core services categories (that the Fed closely watches) also eased this month.

Shelter inflation – the largest component of the CPI index – moderated to 4.2% YoY, its slowest pace since December 2021. This was driven by a continued steady easing of rental inflation and a significant slowdown in hotel and motel inflation. Excluding shelter, headline CPI was 2%, equal to the Fed’s target.

Growth in “supercore” services inflation (which excludes housing) also moderated, largely driven by a 0.8% decline in transportation services prices in February, with a 4% fall in airline fares the largest factor.

1 Macrobond, Bureau of Labor Statistics, Insight, March 2025

FIGURE 2: CORE SERVICES SEE IMPROVEMENTS ACROSS MOST CATEGORIES[2]



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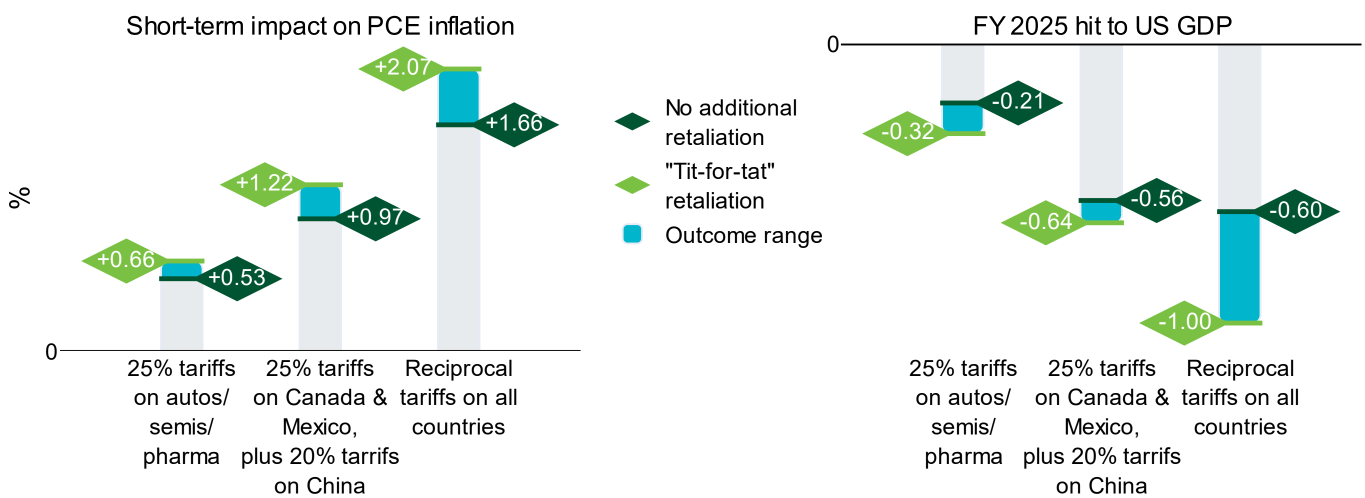
TARIFF UNCERTAINTY CONTINUES TO WEIGH ON CONSUMERS

Uncertainty around the Trump administration's tariff policies has weighed on consumer sentiment over the last month. Although the policy picture continues to change almost daily, the broad consensus among economists is that tariffs will likely impair US growth outlook and will likely have a short-term inflationary impact (Figure 3).



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WE EXPECT THE FED TO LOOK THROUGH TARIFFS FOR NOW

We believe tariffs are likely to force a range of one-time goods price adjustments which may show up in future CPI readings. However, we expect the inflationary impact to be transitory in nature. Therefore, the Fed may be prepared to "look through" them and focus on the potential drag on growth, particularly any potential impact on the labor market.

As such, while the policy environment remains tricky, we expect continued disinflation and lower growth expectations to keep further rate cuts on the table in 2025, potentially supporting fixed income.

2. Macrobond, Bureau of Labor Statistics, Insight, March 2025
3 The Budget Lab at Yale, March 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. **PCE inflation** is a measure of how prices for goods and services change over time, as tracked by the Personal Consumption Expenditures (PCE) Price Index. The PCE is a key indicator of inflation in the United States. **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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