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Economic Research

Economic Briefing

US inflation somewhat below expectations, again

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US consumer prices rose somewhat more slowly than expected again in April. Both overall and excluding energy and food, the increase from March was 0.2%. The tariffs have not (yet) had any major impact. We continue to expect a tariff-related price surge in the coming months. However, inflation had obviously calmed down noticeably before the trade conflict. This increases the chances that the inflation shock will not get out of hand.

The data

US consumer prices rose by 0.2% in April from the previous month. The year-on-year rate fell from 2.4% to 2.3%. The more important core rate, which excludes the volatile prices for energy and food, was also 0.2% on the previous month. In year-on-year terms, it remained at 2.8%. Most economists had expected the month-on-month rates to be 0.3% each.

Background

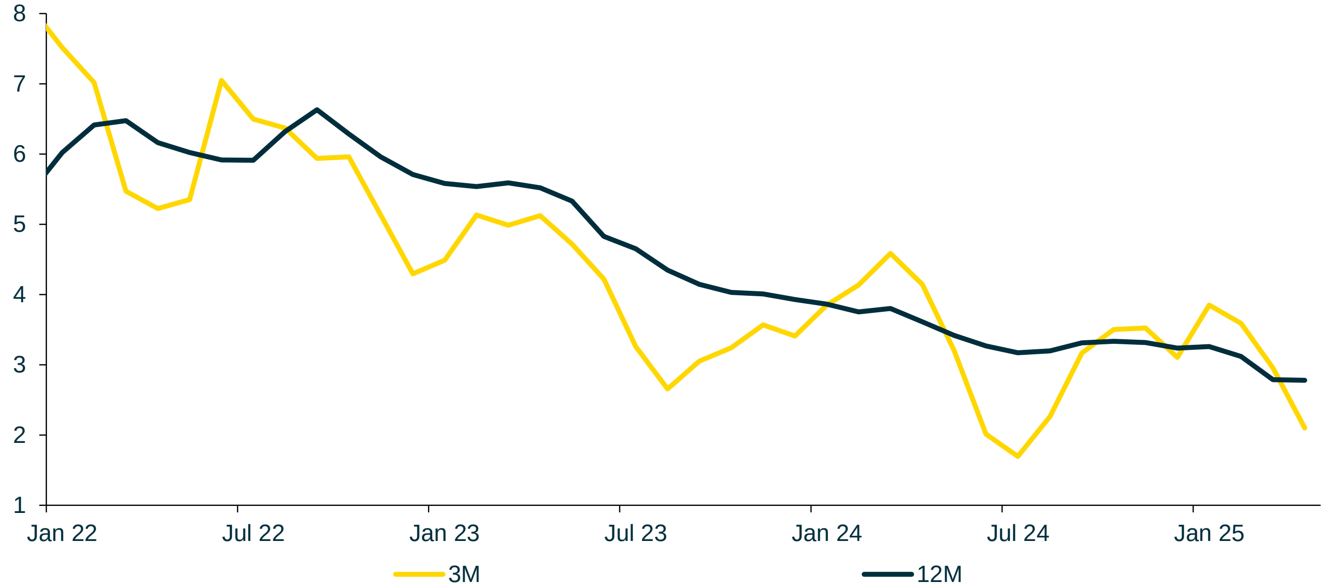
Before the tariff shock, inflation in the US had apparently calmed down. In April, inflation data was lower than expected for the third month in a row. The core rate, which is important for the trend, has only increased by an annualized 2% in the last three months (Chart 1). This may reflect the fact that wage growth has slowed considerably which helped companies to reduce the increase in costs.

In the coming months, however, tariff-related price increases should have a bigger impact, especially for goods. There was still little sign of this in April, even though some products that are typically imported from China became more expensive. This applies, for example, to furniture (+1.5%), household appliances (+0.8%) and toys (+0.3%).

The fact that the underlying inflation eased significantly before the tariff shock reduces the risk of price increases getting out of hand.

Chart 1 - Inflation momentum turned lower again

consumer price index excluding food and energy, 3- and 12-month changes, annual rate in %



Source: S&P Global, Commerzbank Research

Impact of tariffs uncertain, Fed continues to wait and see

The impact of tariffs on prices is difficult to assess. So far, higher price pressure has been observed in only a few sectors. Companies appear to be passing on only some of the higher costs to customers. They may also have stocked up in time before the various rounds of tariffs came into effect. The question is whether Donald Trump has backtracked on tariffs on Chinese goods in time to prevent sharp price increases. There is therefore still much to be said for the Fed waiting until a clearer picture emerges. We continue to assume that the Fed will not cut interest rates until September, i.e. that it will hold off at its next two meetings.

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