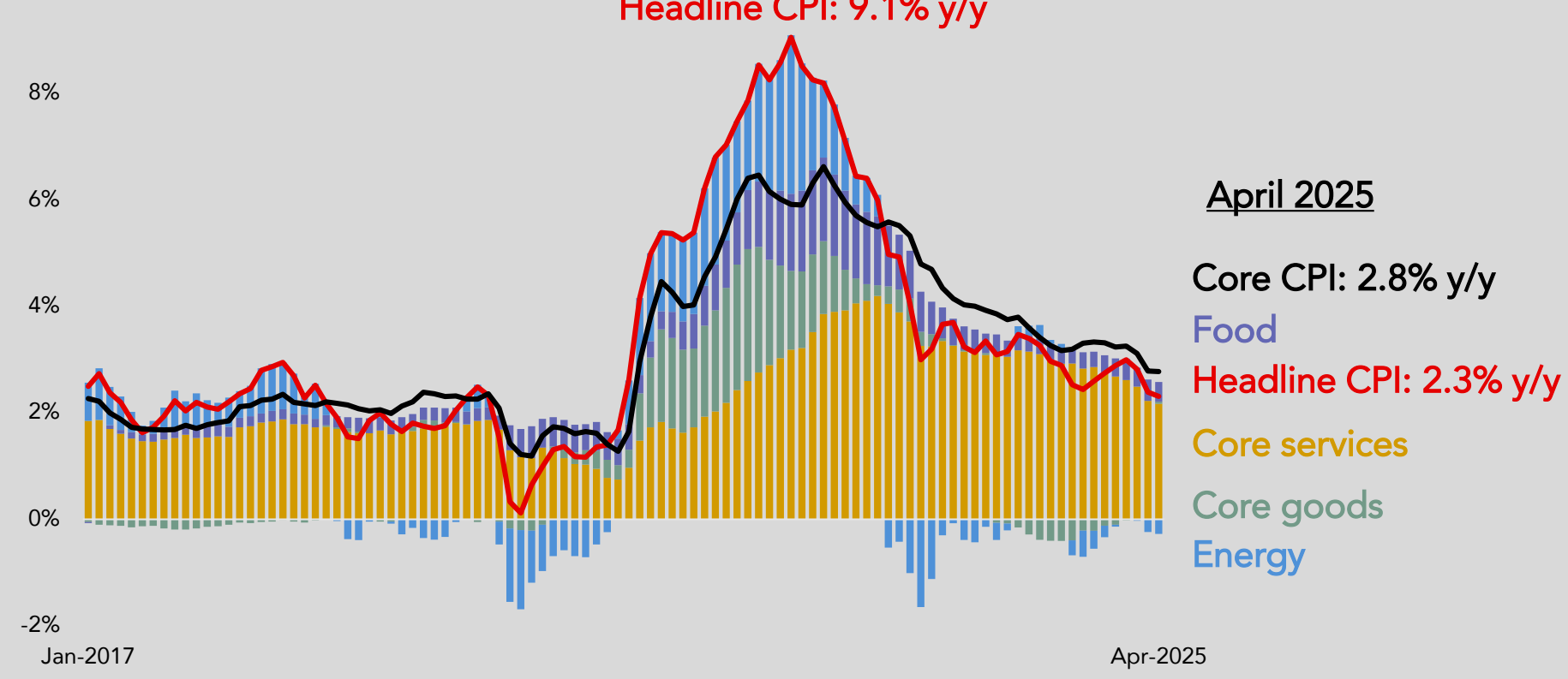


Inflation came in softer than expected for a third month in April suggesting that the immediate pass through of tariffs into broader pricing was quite modest. Headline CPI rose 2.3% y/y and 0.2% m/m. Core inflation rose 2.8% y/y, the slowest pace the since spring 2021 inflation surge, and 0.2% m/m. Lower energy prices, a key input for everything from airline tickets to groceries, have likely dampened the early impact of inflation, thereby clouding the medium term outlook for inflation.

Breakdown of CPI by components



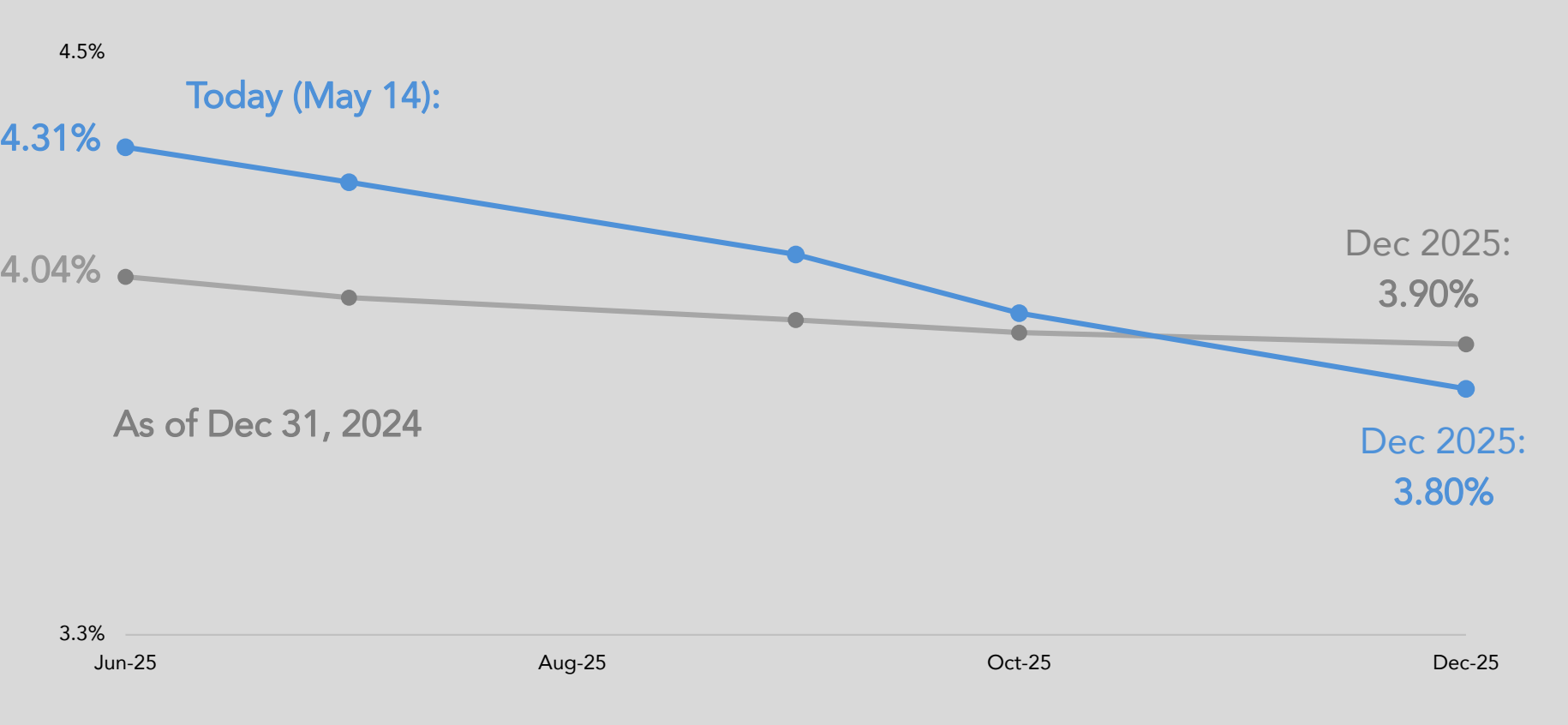
US consumer prices came in softer than expected in April, with headline inflation rising 2.3% y/y and 0.2% m/m. Core inflation rose 2.8% y/y and 0.2% m/m. Shelter accounted for more than half the gains and prices of furniture and appliances, goods that are largely imported, jumped. However, grocery prices declined by the most since 2020.

April CPI inflation actual vs. estimates

Metric	Actual	Estimate	Difference
Headline CPI y/y	+2.3%	+2.4%	(-0.1%)
Headline CPI m/m	+0.2%	+0.3%	(-0.1%)
Core CPI y/y	+2.8%	+2.8%	+0.0%
Core CPI m/m	+0.2%	+0.3%	(-0.1%)

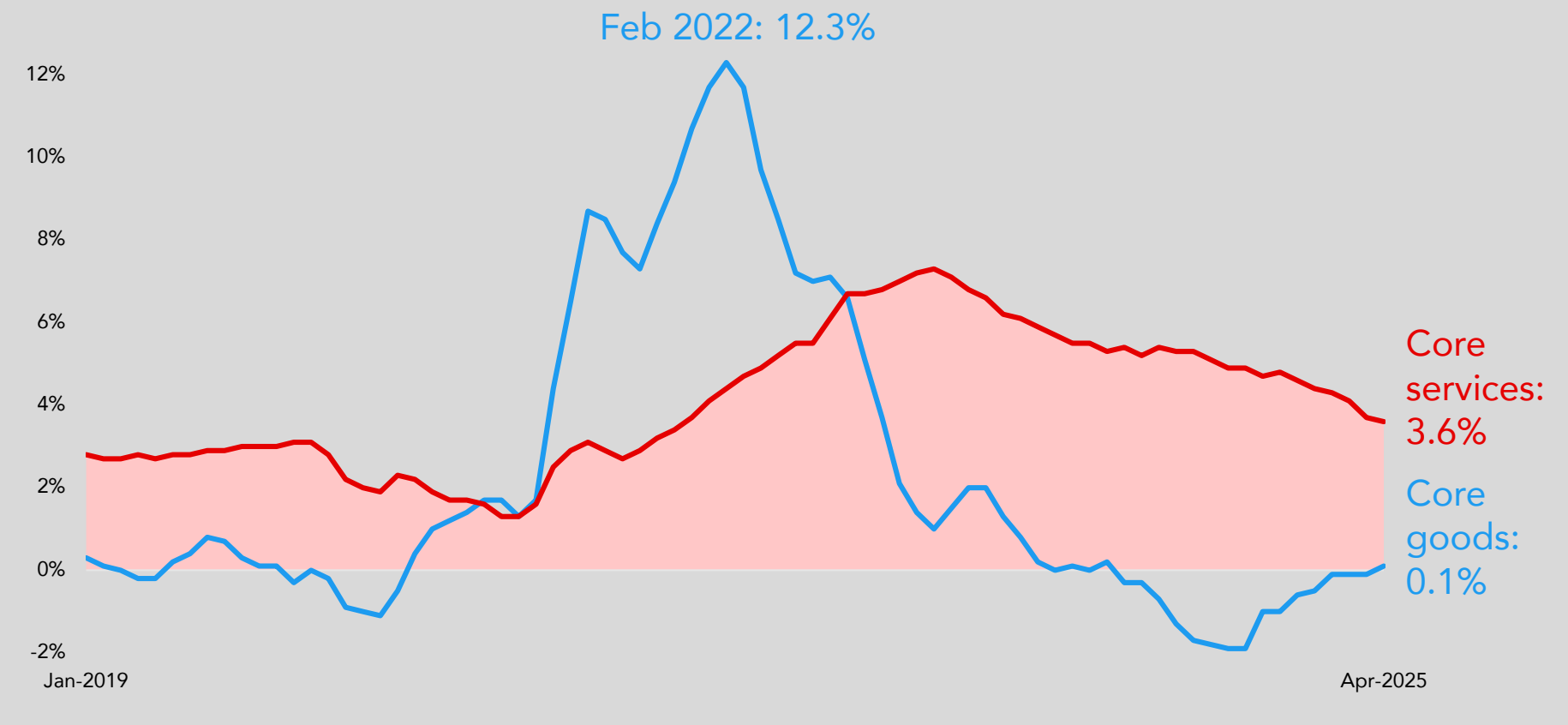
The soft April inflation report along with the elevated uncertainty surrounding tariff policy will likely keep the Federal Reserve on hold for the foreseeable future. Market implied Fed Funds are pricing in only two rate cuts by the December FOMC. Just two weeks ago, the market was pricing in over 4 rate cuts by year end 2025.

Marked implied Fed Funds rate (Dec 31, 2024 vs. today)

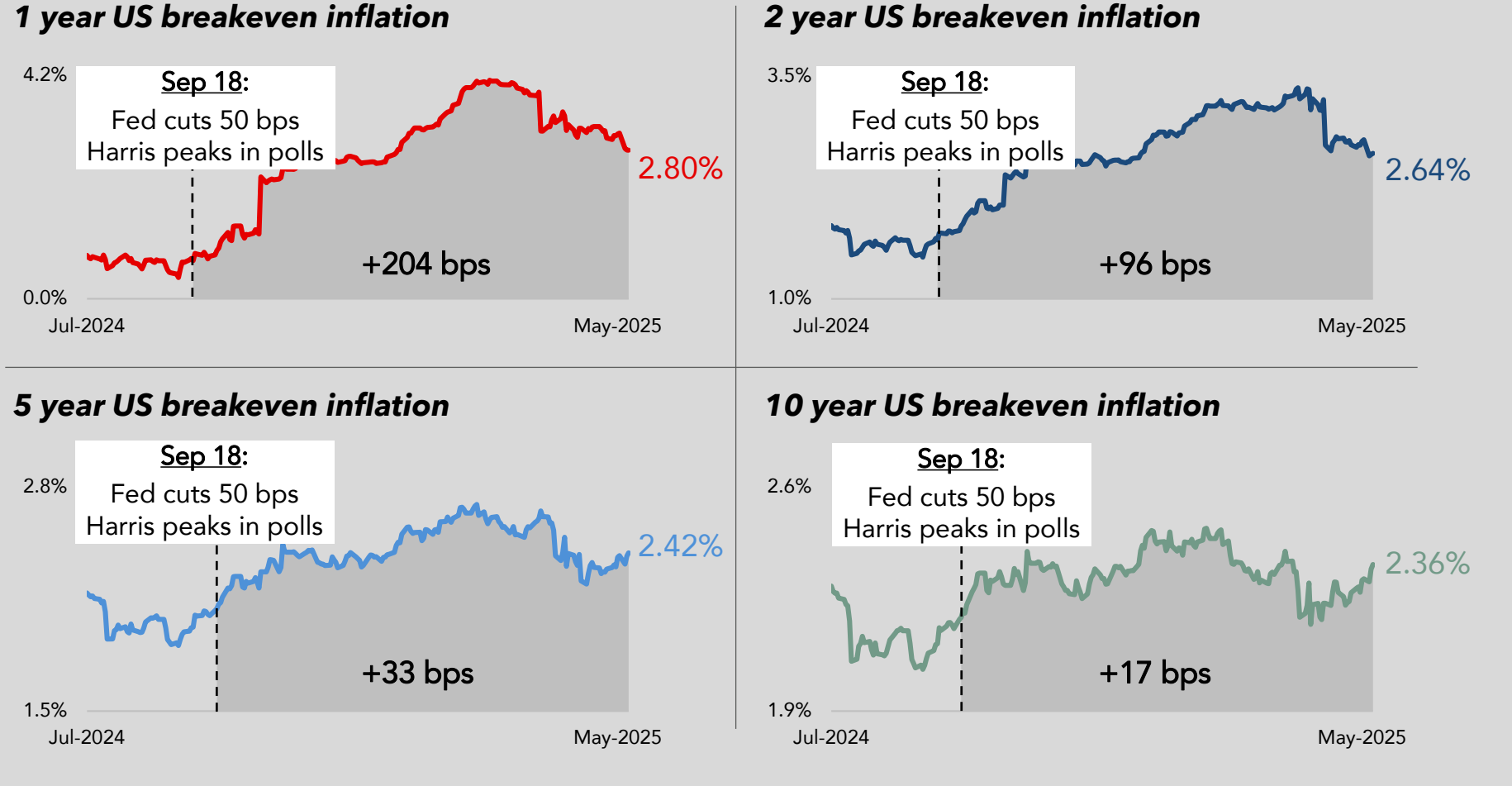


The overall tariff impact was muted with core goods prices edging up by just 0.1% m/m. However, core goods inflation is likely to pick up over the coming months as inventories of goods imported pre-tariff hikes get depleted. Core services inflation, which is stickier than goods, rose 0.3% in April. Super core inflation, which excludes housing, rose 0.21% after a decline in March. Weakness in some of the services categories like travel and recreation suggest consumers may be starting to cutback on discretionary spending.

US core goods and services inflation, y/y



Despite the softer April inflation reading, and the market’s pivot to growth concerns, US inflation break-even levels remain elevated vis-a-vis expectations several months ago.



While m/m inflation data provides very useful information on the recent momentum in (dis)inflation, a look at today’s CPI data on a y/y basis provides a useful lens on the categories in which the consumer is feeling the most cost pressure (and relief) relative to one year ago.

April US inflation by sector (y/y)

Energy	Food	Core goods	Core services
Eggs 49%	Nonalcoholic beverages 3%	Household furnishings & supplies 0.3%	
Utility gas service 16%	Medical care services 3%	Tools, hardware & supplies 0.3%	
Educational books 10%	Physicians' services 3%	Cosmetics 0.2%	
Tobacco & smoking products 7%	Professional services 3%	Furniture & bedding 0.2%	
Motor vehicle insurance 6%	Computer software and accessories 3%	Laundry & cleaning services 0.0%	
Delivery services 6%	Transportation services 3%	Cereals & bakery products 0.0%	
Energy services 6%	Financial services 2%	Pets & pet products (-0.2%)	
Audio equipment 6%	College tuition and fees 2%	Wireless phone services (-0.3%)	
Motor vehicle maint. & Repair 6%	Land-line phone services 2%	Apparel (-1%)	
Day care and preschool 5%	Intracity mass transit 2%	Fruits and vegetables (-1%)	
Veterinarian services 5%	Funeral expenses 2%	Appliances (-1%)	
Garbage & trash collection 5%	Recreational reading 2%	Footwear (-1%)	
Water & sewerage maint. 5%	Food at home 2%	Toys (-1%)	
Music instruments & acces. 5%	Alcoholic beverages 2%	Lodging away from home (-1%)	
Nursing homes 5%	Tires 2%	Car & truck rental (-2%)	
Meats 4%	Used cars and trucks 2%	Internet services (-3%)	
Owners' equivalent rent 4%	Jewelry and watches 1%	Energy (-4%)	
Rent of shelter 4%	Motor vehicle parts and equipment 1%	Sporting goods (-5%)	
Shelter 4%	Photo equipment & supplies 1%	Public transportation (-6%)	
Food away from home 4%	Medicinal drugs 1%	Computers and smart home assistants (-6%)	
Milk 4%	Moving, storage, freight expense 1%	Airline fares (-8%)	
Recreation services 4%	Technical & bus. school tuition 1%	TVs (-10%)	
Services less energy services 4%	Housekeeping supplies 1%	Energy commodities (-12%)	
Hospital services 4%	Outdoor equip. & supplies 1%	Motor fuel (-12%)	
School tuition 4%	Vehicle accessories 1%	Smartphones (-14%)	
Electricity 4%	Personal care products 0.4%		
Health insurance 3%	New trucks 0.3%		
	New vehicles 0.3%		

Source: (1-10) Bureau of Labor Statistics. CPI Report April 2025. Bloomberg. Data as of May 14, 2025. Goods is commodities less food and energy commodities. Services is less energy.

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“Macro stability isn’t everything, but without it, you have nothing.”