

## US inflation fears cool on tariff climbdown and softer services

US inflation undershot expectations in April. With the price hike threat from tariffs receding thanks to recent agreements and with leading housing indicators pointing to a cooling in shelter costs, there will continue to be scope for Federal Reserve interest rate cuts later in the year



US CPI for April came in softer than expected on cooling shelter costs

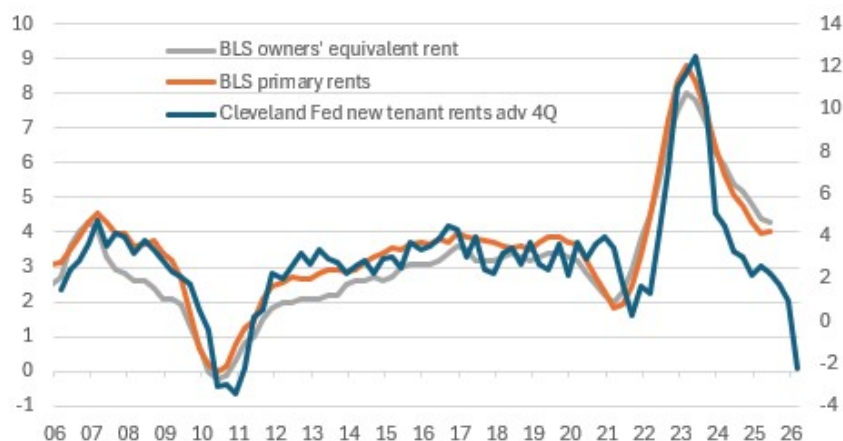
### US inflation undershoots with shelter set to become a more important influence

US CPI rose 0.2% month-on-month for both headline and core in April, below the 0.3% readings expected. This means headline inflation is down to 2.3% year-on-year from 2.4%, which is the lowest reading since February 2021, while core - ex food and energy - remains at 2.8% YoY.

The details show a third consecutive drop in airline fares (-2.8%MoM/-7.9%YoY) while used car prices fell 0.5% and apparel fell 0.2% and food prices fell 0.1% MoM. This offset strength in medical care services (+0.5%MoM) and medical care commodities (+0.4%) plus large increases in motor vehicle maintenance (+0.7%) and vehicle insurance (+0.6%).

The shelter components, which make up 35.4% of the inflation basket by weight also continue to run at elevated rates of 0.3%MoM/4.0%YoY, but the good news is that lead indicators, such as the Cleveland Fed's new tenant rent series, are falling in YoY terms and suggests, based on the historical relationship, that housing costs will slow sharply late this year/early next.

## US housing lead indicator points to moderating shelter inflation



Source: Macrobond

## Receding tariff threat should calm Fed concerns

Moreover, it is important to remember that the US inflation basket is dominated by services. Commodities ex food and energy, which is what is going to be most impacted by tariffs, make up only 19.4% of the basket of products and services used to calculate inflation. Therefore the housing and services story can help to mitigate the inflation threat from tariffs, which itself is less of a concern in the wake of the recent cooling of tensions with China.

This softer services inflation narrative also appeared to be the message from today's NFIB survey of small businesses, which showed a pull back in the proportion of firms currently raising their prices to 25% versus 31% in February and those expecting to raise their prices over the next three months to 28% from 30% two months ago.

So while the de-escalation of trade tensions is helpful for growth, it also makes it more likely that inflation will be less of an issue for the Federal Reserve and the scope for Fed rate cuts remains. We had been looking for the Fed to wait until September before cutting and that still holds, but rather than start with a 50bp cut, it appears more likely to be a 25bp move.

### Author

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information

purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).