# US data suggests only modest tariff impacts so far

April retail sales suggests pre-emptive buying to get ahead of tariff-related price hikes faded quickly after a March spending surge. Meanwhile, subdued PPI indicates that, for now, companies are choosing to absorb higher costs in profit margins. That may not continue for long


US retail sales were broadly in line with expectations for April and we still see scope for rate cuts by the Federal Reserve later in the year

## Retail sales suggests pre-emptive buying has quickly dissipated

We've had a really interesting set of US macro numbers this morning that in general suggest the Federal Reserve will be in a position to loosen monetary policy later in the year. April retail sales were broadly in line with expectations, rising 0.1% month-on-month (consensus 0.0%), but the "control group" is very soft at -0.2% MoM versus expectations of a 0.3% MoM gain. This measure excludes volatile items such as gasoline and autos and building materials and has a track record of better reflecting the underlying trend within consumer spending – remember retail sales only account for around 42% of total consumer spending.

Remember too that this is a nominal figure, so we need to deflate it to give us real growth as measured in GDP. That would imply perhaps a -0.3% or -0.4% MoM contraction. This would be a very poor outcome given that the market had expected a continuation of pre-emptive buying to get ahead of tariff induced price hikes. Electronic and furniture sales rose 0.3%, but most other components were flat or down. The only sector to see growth was eating out, which rose 1.2% MoM - note this is a category not particularly exposed to tariffs.

Meanwhile industrial production was softer than hoped in April with a flat outcome as manufacturing contracted 0.4% and utilities jumped 3.3%. The trend essentially remains a flat line.

## Firms choosing to absorb higher costs... for now...

Meanwhile PPI fell 0.5% MoM versus expectations of a 0.2% rise. That said, there was a big upward revision to the March data from -0.4% to 0.0% MoM. The core measure was also soft (-0.4% versus +0.3% expected), but again a huge upward revision. It either suggests a significant error in the calculation or they have had late data in that really swung things around in March. Nonetheless, the year-on-year rates have slowed markedly for headline PPI from 3.4% to 2.4% YoY and core drops from 4% to 3.1%. With last week's CPI report also producing relatively benign 0.2% MoM outcomes there is little evidence, so far, that tariffs are inflationary and instead profit margins are being squeezed. But as Walmart suggested this morning, that is a situation that may not last long.

The PPI components that feed through into the core PCE deflator (the Fed's favoured inflation measure) suggest a 0.1% MoM print is possible for the core PCE. Portfolio management fees plunged 6.9% MoM while medical services were in general softer than the 0.5% MoM recorded in CPI. As such we still feel the Fed will be in a position to resume moving interest rates closer to neutral later in the year.

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