Economics

Economic Indicator — May 13, 2025

April CPI: No News Is Good News

Summary

Consumer price inflation rebounded in April but continued to subside on trend. The headline index advanced 0.22% while the core rose 0.24%, both a touch below the average of the Bloomberg survey estimates. The 0.1% rise in core goods prices conveyed only glimmers of tariffs beginning to push prices higher, as a drop in vehicle and apparel prices nearly offset widespread strength among other goods prices. Meantime, services inflation picked up in April (+0.3%) on the back of a rebound in motor vehicle insurance and smaller decline in travel, but slipped to 3.6% on a year-ago basis—the smallest increase since late 2021.

The core CPI has increased 2.8% over the past 12 months and at a 2.1% annualized rate over the past three months. This marks a continuation of a slow but steady trend toward lower inflation in the United States. However, higher tariffs threaten to derail this trend, and our expectation is that prices for goods including vehicles and apparel will rise in the coming months. A continued deceleration in services prices should help offset some impact from higher goods prices, but we expect the net effect to be a rise in the core CPI to 3.6% by year-end. We believe this leaves the FOMC in "wait and see" mode due to upside risk for both inflation and unemployment. We still expect the first rate cut from the FOMC to occur at the September meeting.

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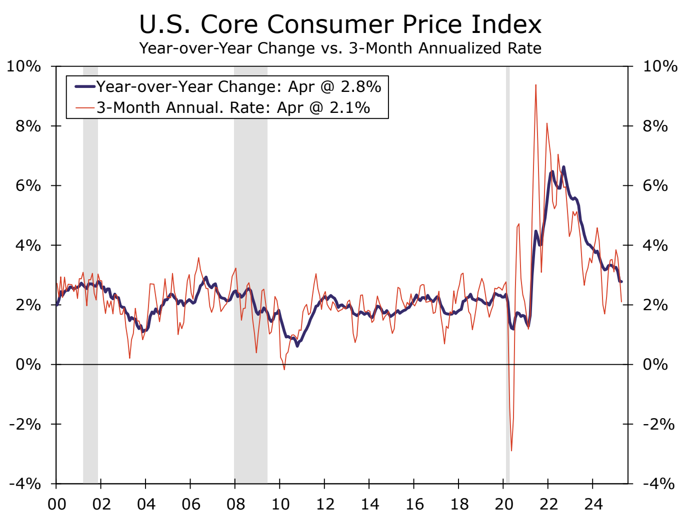


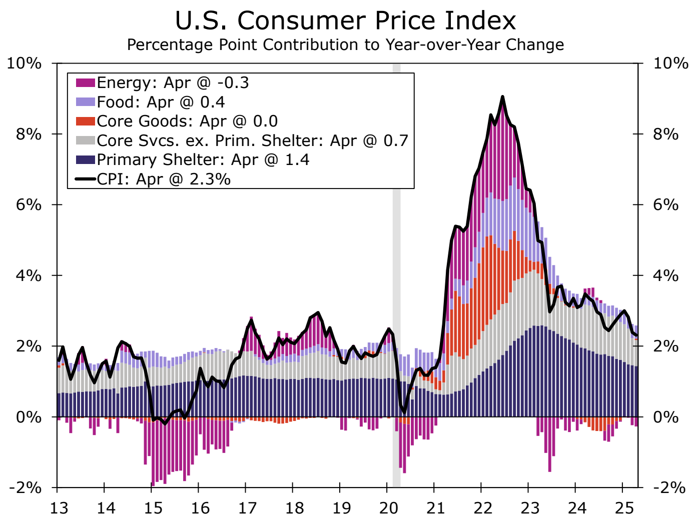
Source: U.S. Department of Labor and Wells Fargo Economics

April Inflation In Line with Expectations

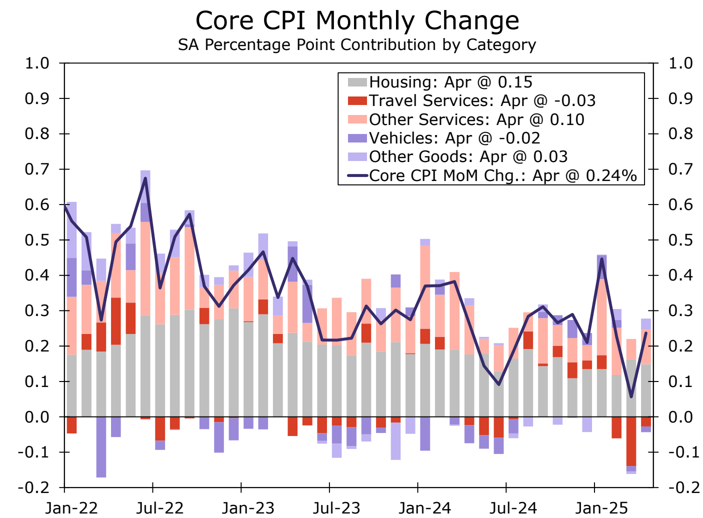
Inflation continues to ease on trend. The Consumer Price Index rose 0.2% in April, a touch softer than expected but still a rebound from March's unexpected decline. The temperate gain reduced the year-over-year rate by a tenth to 2.3%, which is the slowest pace since early 2021 (chart).

A reprieve at the grocery store (-0.4%) underpinned the muted rise in the headline CPI. Egg prices started to come back down to earth, plummeting 12.7% amid improved containment of the avian flu. While grocery store prices fell, the cost of dining out continues to rise—restaurant prices increased 0.4% for the third consecutive month. Still-solid hiring in leisure & hospitality has supported steady wage growth in the sector, feeding through to solid price growth.

The moderation in grocery prices was juxtaposed with a bounce back in energy prices. After declining steeply in March, energy prices rose 0.7% in April, driven by an increase in electricity and gas utilities. The strength is unlikely to persist, in our view. Global growth concerns and recent announcements of crude oil production increases should keep energy prices on a deflationary trend this year.



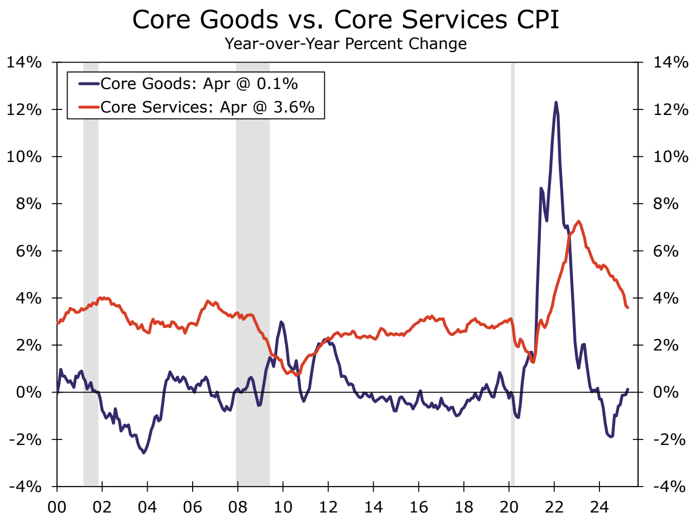
Source: U.S. Department of Labor and Wells Fargo Economics



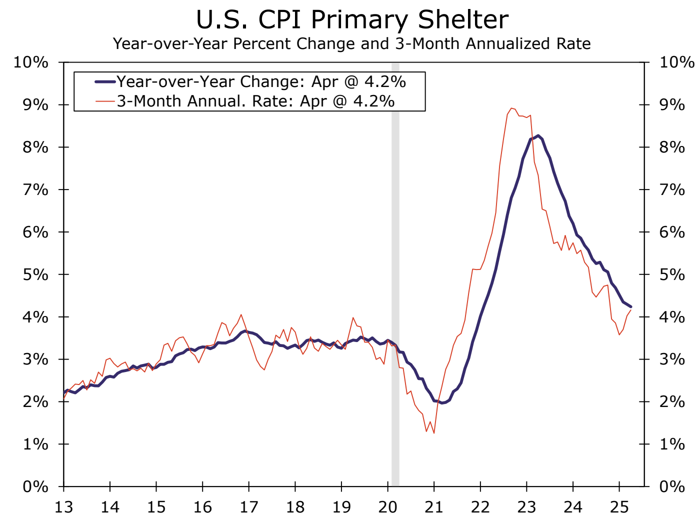
Source: U.S. Department of Labor and Wells Fargo Economics

Excluding food and energy, consumer prices rebounded from the lowest monthly print in four years to advance 0.2% (chart). On an unrounded basis, the core index rose 0.24%, only modestly below the Bloomberg survey average of 0.27%. Thus far there are few signs of tariffs sending goods prices significantly higher. Core goods prices rose 0.1% in April, held in check by flat prices for new vehicles and a dip in prices for used vehicles and apparel. Yet recreation goods, IT goods, household furnishings and other goods rose in April. Excluding autos, core goods prices rose 0.2% to match the strongest gain in a year and a half in a sign that some businesses are trying their hand at higher prices.

While attention has shifted back to goods inflation amidst the higher tariff environment, services inflation has been gradually cooling on trend (chart). The year-over-year rate of core services CPI edged down to a three-year low of 3.6% in April despite the monthly pace of inflation rebounding to 0.3% after a 0.1% increase in March. The stronger monthly print was driven by a rebound in motor vehicle insurance (+0.6%) and smaller decline in travel services (-0.8% after a 3.8% decline in March). But housing inflation eased up slightly in April. Over the past year, primary shelter inflation is up 4.2%—still above the 3.4% pace that preceded the pandemic, but a notable improvement from the 5.7% year-over-year increase registered this time last year (chart). We expect core services inflation to subside somewhat further over the remainder of the year as housing inflation eases a bit more and slower growth in labor costs and a more cautious consumer limit price increases in non-housing services.



Source: U.S. Department of Labor and Wells Fargo Economics



Source: U.S. Department of Labor and Wells Fargo Economics

For the FOMC, no news is probably good news when it comes to inflation. Through the first four months of the year, core inflation has continued to slow gradually. The core CPI has risen 2.8% over the past 12 months and at an annualized rate of 2.1% over the past three months, and these data points reflect continued improvement relative to the inflation readings seen last year. Absent any major changes in trade or fiscal policy, the FOMC probably would be pleased with the slow but continued progress toward hitting its 2% inflation mandate.

Of course, trade policy has changed dramatically in recent months, and major fiscal policy changes loom on the horizon as well. The statement released at the conclusion of last week's FOMC meeting made clear that the Committee "judges that the risks of higher unemployment and higher inflation have risen." This week's détente between China and the United States on sky-high tariffs helps reduce some upside risk to unemployment and inflation, but tariffs on U.S. imports remain materially higher than they were to start the year. As a result, we expect inflation to pick up in the coming months for goods sectors of the economy, including vehicles and apparel. A continued deceleration in services prices should help offset some impact from higher goods prices, but we expect the net impact to be a rise in the core CPI to 3.6% by year-end.

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