

## Daily Dose of Macro & Markets 12<sup>th</sup> August 2025: “All Eyes on CPI –> Shelter vs. Tariffs”

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The ‘[Daily Dose of Macro & Markets](#)’ is our new publication designed to speak to the key global macro debates that matter for markets (with 1 - 3 charts and two paragraphs). This product will be published every Tuesday, Wednesday, Thursday and Friday morning (early London time).

### All Eyes on CPI –> Shelter vs. Tariffs

It’s all eyes on US consumer price inflation later today (due out at 1:30pm London time/8:30am EST). Consensus expectations are for core inflation of 0.3% (m-o-m) & 3.0% (y-o-y); while headline is expected to be 0.2% (m-o-m) & 2.8% (y-o-y).

More precisely, according to the WSJ, the **median forecast** for July core inflation is 0.31%, with most Wall Street economists bunched within +/-3bps of the consensus (i.e. a range of 0.27% to 0.33%). The outliers are Barclays (0.24%) and Jeffries (0.25%) who have the lowest forecast; while, at the higher end of the range, JP Morgan & Nomura are forecasting +0.34%, and UBS is at 0.35% (NB all m-o-m %). See table 1 below for detail.

The data, of course, is critical. It’s a key input into the Federal Reserve’s thinking. In recent months, ‘[the potential inflationary impact of tariffs](#)’ has been the Fed’s reason for not cutting rates. At his last press conference Powell stated that “[what we see now is the very beginnings of tariff inflation](#)”; although he also stated that there is “[no question \(that the\) consumer has slowed](#)”. So, from the Fed’s perspective, they are stuck between a ‘rock and a hard place’. Inflation is too hot, yet the economy is slowing. Hence the importance of this month’s inflation data.

The challenge for forecasters, though, is that **uncertainty is high and the inflation signals are mixed**. The oil price, for example, is down 11% YTD, and has weakened dramatically since the Iran-Israel conflict in mid-June. Oil, of course, is one of the key short and long term drivers of inflation. Wage inflation (another key component) is also clearly in a slowing trend (along with the labour market); while, in contrast, the mass of prices that make up inflation have been picking up. Our monthly median inflation model, for example, which measures the increase of the median price of all the underlying subcomponents has accelerated in the past 12 months. As fig 1 shows median monthly inflation, last summer, was trending at around 0.1% (6 month smoothed). On latest data it’s at 0.22% (6m smoothed), while the latest single monthly figure was 0.40% in June (fig 1) – which is the highest number since January 2023.

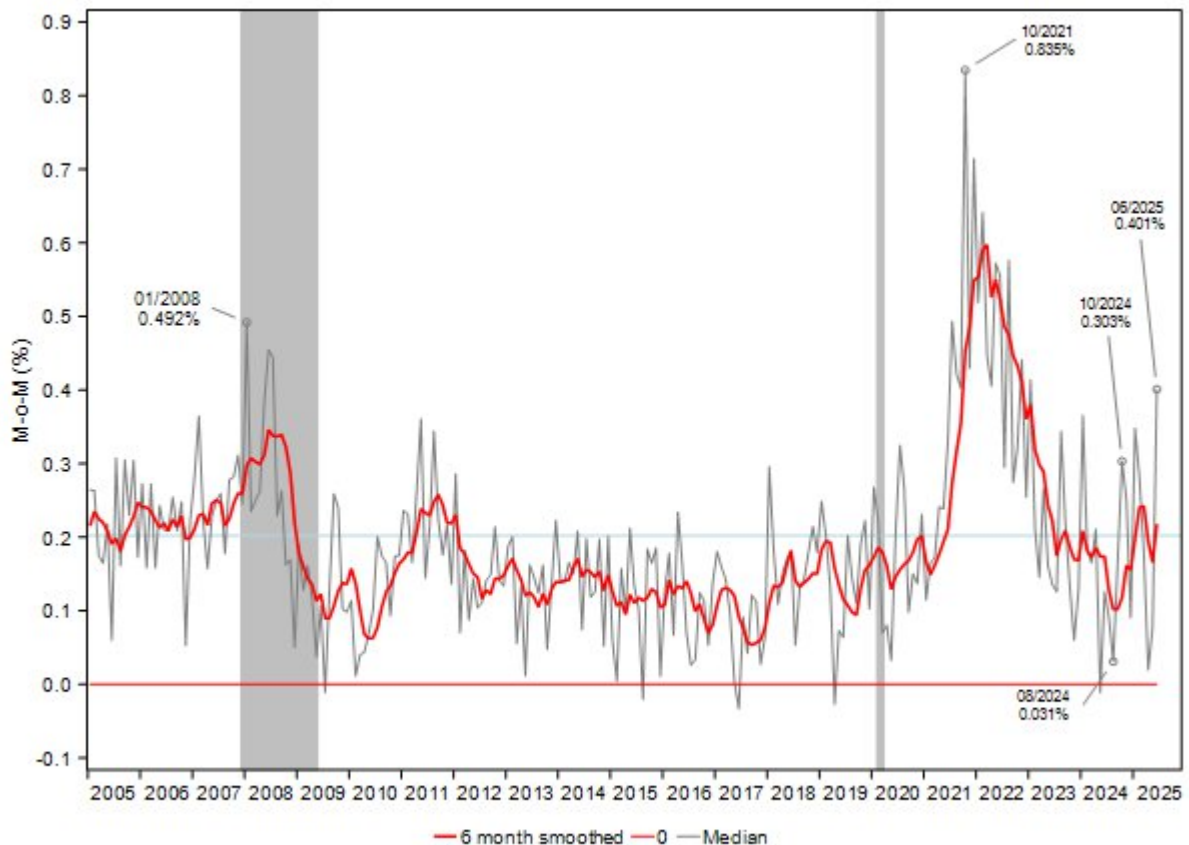
Equally, **on the opposite side of the argument**, not only are there growing signs that the US economy is slowing, but more importantly for the inflation data, leading indicators of shelter inflation suggest it should continue to slow (and could, therefore, generate a downside inflation surprise). Shelter accounts for 35.5% of headline CPI and 44% of core. Its main component is ‘owner’s equivalent rent’ (i.e. what owners would pay if they rented their own house, rather than owning it). It’s a statistical method used by statisticians to make GDP and inflation data work. No-one actually pays it (it’s imputed – i.e. estimated). Most importantly it tends to follow the trend of the new rents, but with a lag – and for this reason can be hard to predict.

Interestingly, as fig 2 shows, according to the ‘new rent’ indices\* (a leading indicator of ‘all rents’) shelter inflation is likely to continue falling over coming months (and potentially meaningfully).

This, therefore, illustrates the many challenges that makes forecasting core inflation so tricky. Tariffs, of course, don’t help either!

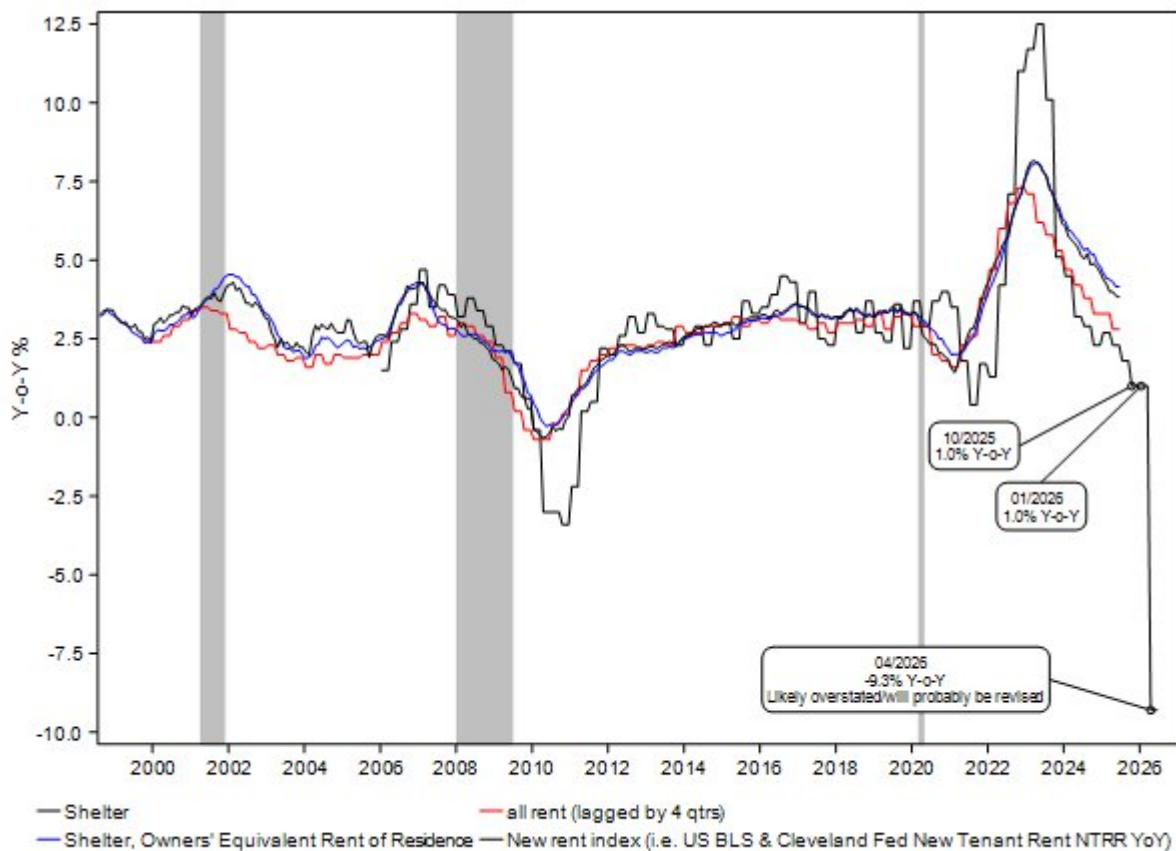
All eyes on 1:30pm London time (8:30am EST).

**Fig 1:** US median inflation (m-o-m %, 1 & 6 month smoothed)



Source: Longview Economics, Macrobond

**Fig 2:** US BLS ‘all rent’ and ‘new rent’ (prototype) indices\* shown vs. official CPI shelter inflation (Y-o-Y %)



Source: Longview Economics, Macrobond

\*NB these indices ‘utilize new methods adapted from a research article\*\* to calculate an index based on BLS rent microdata. The R-CPI-NTR and R-CPI-ATR are currently calculated as prototype research indexes.’ Source: <https://www.bls.gov/cpi/research-series/r-cpi-ntr.htm>.

**\*\*Abstract** from US BLS research paper: “Prominent rent growth indices often give strikingly different measurements of rent inflation. We create new indices from Bureau of Labor Statistics (BLS) rent microdata using a repeat rent index methodology and show that this discrepancy is almost entirely explained by differences in rent growth for new tenants relative to the average rent growth for all tenants. **Rent inflation for new tenants leads the official BLS rent inflation by 4 quarters.** As rent is the largest component of the consumer price index, this has implications for our understanding of aggregate inflation dynamics and guiding monetary policy.”, published 2022

**Source:** US Bureau of Labor Statistics, <https://www.bls.gov/osmr/research-papers/2022/ec220100.htm>

**Table 1:** Wall Street economists' estimates of July CPI inflation data

## July CPI forecasts

	Headline		Core	
	<i>m/m</i>	<i>y/y</i>	<i>m/m</i>	<i>y/y</i>
Bank of America	0.24%	2.8%	0.31%	3.1%
Barclays	0.29%	2.7%	0.24%	3.0%
BMO Capital Markets	0.26%	2.8%	0.28%	3.1%
BNP Paribas	0.26%	2.8%	0.32%	3.0%
Citigroup	0.24%	2.8%	0.29%	3.1%
Deutsche Bank	0.24%	2.8%	0.32%	3.0%
Employ America	0.20%		0.27%	
First Trust	0.20%	2.9%	0.28%	3.0%
Goldman Sachs	0.27%	2.8%	0.33%	3.1%
Jefferies	0.17%	2.7%	0.25%	3.0%
JP Morgan	0.26%	2.8%	0.34%	3.1%
Moody's	0.22%	2.8%	0.30%	3.0%
Morgan Stanley	0.26%	2.8%	0.32%	3.0%
Nomura	0.24%	2.7%	0.34%	3.1%
Pantheon Macroeconomics	0.23%		0.31%	
TD Securities	0.28%	2.8%	0.33%	3.1%
UBS	0.25%	2.8%	0.35%	3.1%
Wells Fargo	0.19%	2.7%	0.27%	3.0%
<b>Median forecast</b>	<b>0.24%</b>	<b>2.8%</b>	<b>0.31%</b>	<b>3.1%</b>
<i>Previous month (June)</i>	<i>0.29%</i>	<i>2.7%</i>	<i>0.23%</i>	<i>2.9%</i>

Source: The Wall Street Journal

Source: Nick Timiraos tweet, <https://x.com/NickTimiraos/status/1954871669127868877>