

## Daily Dose of Macro & Markets 16<sup>th</sup> July 2025: “US Inflation: ‘Something for Everyone’”

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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).

### Key Quote:

“Those who worry that tariffs could drive meaningful price increases later this year are likely to have seen enough in the data to maintain that view, especially since many retailers may still be delaying price increases. For this camp, the June numbers simply make July and August data even more critical to watch.

Conversely, officials who believe tariffs won’t spark sustained inflation—because the economy and corporate pricing power aren’t strong enough to support broad price increases even if some goods prices are rising—could also see their views validated by the relatively modest rise in core prices last month..”

**Source:** WSJ, 15<sup>th</sup> July 2025, “Inflation Picks Up to 2.7% as Tariffs Start to Seep Into Prices”; <https://www.wsj.com/economy/inflation-hit-2-7-in-june-in-line-with-expectations-8f92a8cd>

### Yesterday’s CPI: ‘Something for Everyone’

As Timiraos & Putzier (effectively) wrote in the WSJ yesterday, there was ‘**something for everyone**’ in yesterday’s US inflation data.

Certain (likely tariff related) prices **picked up notably**: ‘Men’s apparel’, for example, was up 0.9% (m-o-m); ‘women’s apparel’ (clothing) was up 0.7% (m-o-m); toys were 1.8% higher (m-o-m) after +1.3% m-o-m last month; while ‘men’s footwear’ was up 2.6% (m-o-m); and ‘household furnishings and supplies’ was +1.0% (m-o-m). These are principally imported goods and therefore mostly liable (probably) to tariffs. Hence tariffs would have contributed to the pick up in those prices (although it should also be noted that the dollar has been weak this year, and that would also affect import prices).

Equally, though, both new and used vehicle prices were **surprisingly soft**: ‘New vehicles’ were down 0.3% (m-o-m); while ‘used cars and trucks’ were down 0.7% (m-o-m).

More importantly, the **key measure of core inflation** (i.e. headline less food and energy) was up only 0.2% (m-o-m), which was **better than expected** (consensus forecast was +0.3%).

Wall Street economists (& others) like to religiously parse through the inflation data each and every month (in various different ways) – and come up with multiple reasons as to why the data was benign or malign.

The **real crux of the issue**, though, is: What are the main/big picture trends in yesterday’s data (and what does it mean for markets):

### Key Observations:

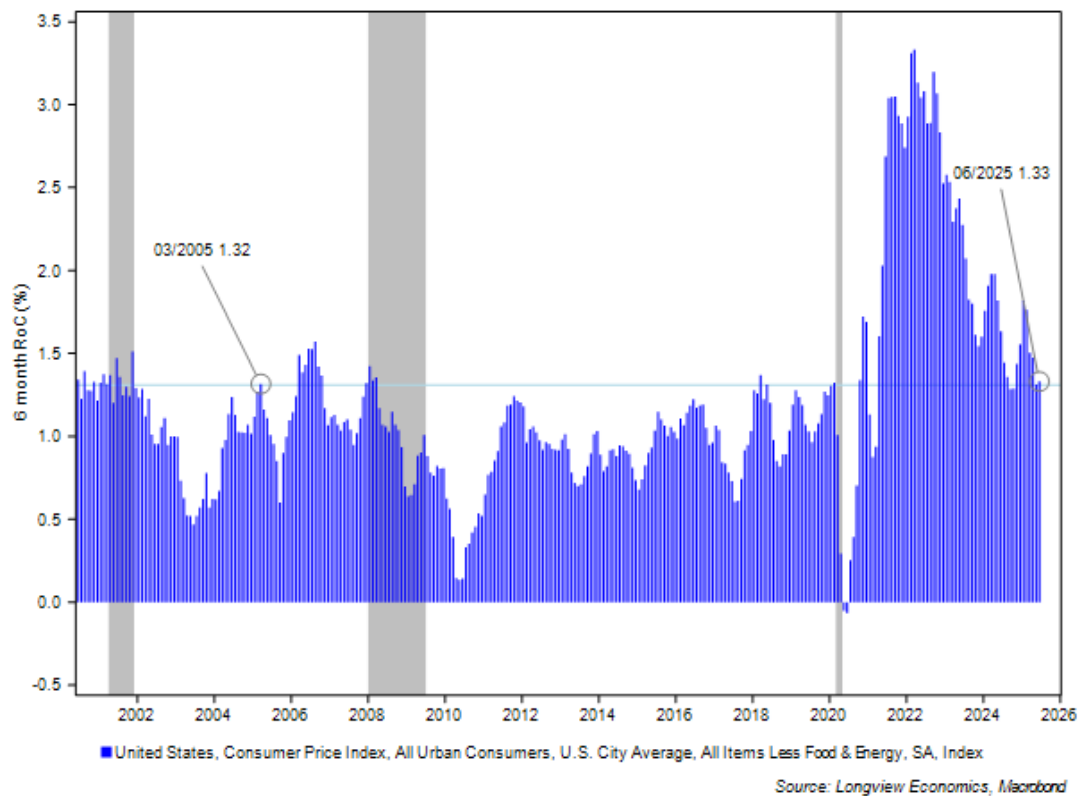
1. The main reason that headline and core inflation have been firm in the past few months (i.e. not fallen faster on their annual rate of change data) is because US **'Goods' inflation has picked up sharply** since August last year (chart 2). US durables goods inflation troughed at -4.2% Y-o-Y (Aug '24). It's now at +0.6% Y-o-Y. (NB its weighting in the CPI index is 10.9%). Naturally part of that is likely due to a weak dollar, and part is probably down to the impact of tariffs. It's also, though, **a global phenomenon**. UK goods inflation (same category) is also up sharply since 2H24 – see chart 3. Goods prices, of course, are mostly global prices.
2. **US core inflation has been modest for most of this year** (except for January). The monthly gains have been +0.45% (Jan, m-o-m); +0.23% (Feb); +0.06% (Mar); +0.24% (Apr); +0.13% (May); & +0.23% (Jun). Over the first half of the year, therefore, cumulative inflation has been 1.33% (2.66% annualised). Whilst above target, this is not dissimilar to the core inflation level during the noughties (albeit it is higher than post GFC 2010 – 2019 period – see chart 1). In other words inflation is back in its normal historical range, despite the recent tariffs impact (and despite the misleading and still high shelter inflation). If January's 0.45% reading is replaced next month by a 0.2% reading, then the 6 month running total will drop firmly into the normal historical range.
3. Shelter inflation continues to be a key reason that core inflation remains elevated. **Ex shelter, US core inflation has been running at around 2% for the past three years** (chart 4). This matters because the majority of shelter inflation is an artificial price which no-one pays (i.e. 'owners' equivalent rent').

### Implications:

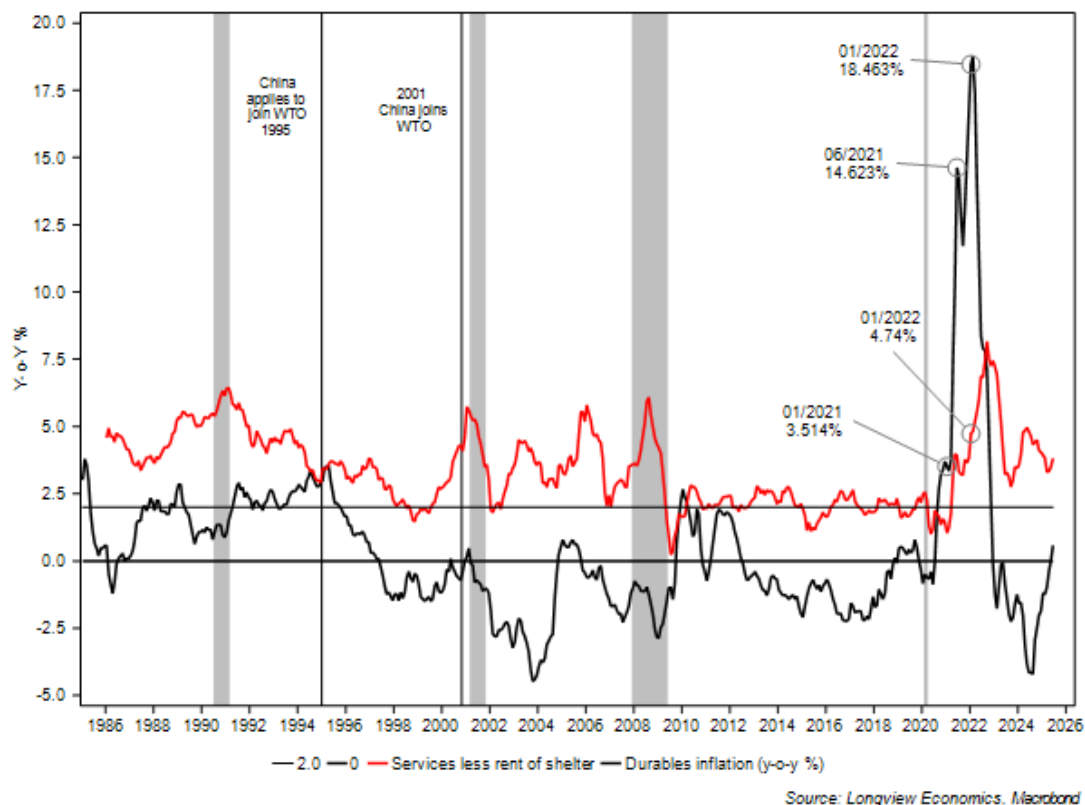
1. The Fed will take the view that it continues to have an **excuse to sit on its hands**. A July rate cut, therefore, remains highly unlikely (2.6% probability according to CME FedWatch). A September cut is now priced at 52.6% (i.e. for 1 cut) & 1.4% probability of two (with 46.1% chance of no cut). Not surprisingly, those 'cut' probabilities fell notably yesterday (from 58.9% and 3.7%, respectively).
2. With cuts being priced out of the curve, the **US equity market has remained rangebound**. Yesterday it sold off throughout the cash trading session (after the inflation data) and is now close to the bottom end of the range that's been in place since the start of this month (i.e. S&P500).

For an update on our latest **'Tactical'** (1 – 4 month) views on the equity market, see our latest **'Longview Alert'** (published 10<sup>th</sup> July 2025 and available to subscribers to the **'Tactical'** package).

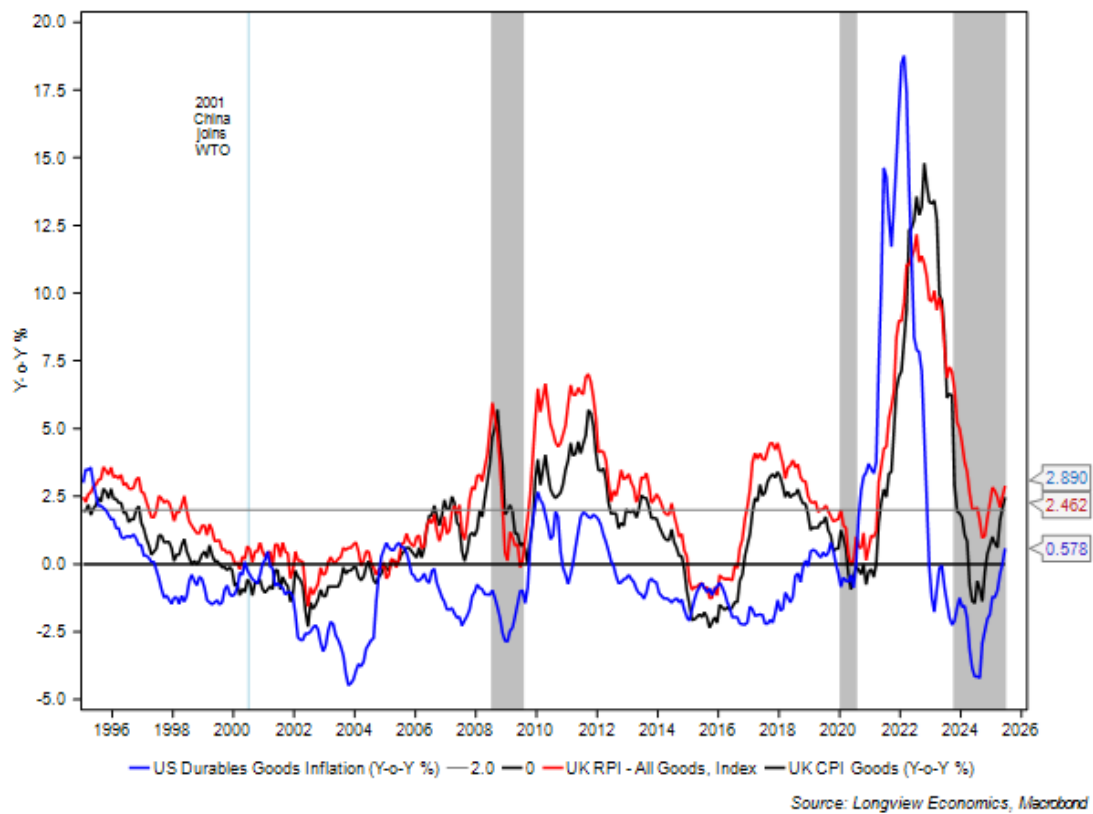
**Chart of the Day 1:** US core inflation - 6 month rate of change (%)



**Chart of the Day 2:** US inflation split into key categories including ‘Durable Goods’ and ‘Services (less shelter)’



**Chart of the Day 3:** US & UK 'Goods' inflation trends compared (all Y-o-Y %)



**Chart of the Day 4:** US core ex shelter vs. shelter inflation (both Y-o-Y %)

