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US CPI (May): Car prices masking tariff impact

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Consumer Price Index (monthly change, %)	June 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025	June NSA YoY%
All items	0.3	0.1	0.2	-0.1	0.2	0.5	2.7
Ex-food/energy	0.2	0.1	0.2	0.1	0.2	0.4	2.9
• Ex-food	0.3	0	0.3	-0.1	0.2	0.5	2.6
• Ex-energy	0.2	0.2	0.2	0.1	0.2	0.4	2.9
Energy	0.9	-1.0	0.7	-2.4	0.2	1.1	-0.8
Services	0.3	0.2	0.4	0.2	0.3	0.5	3.8
Housing	0.3	0.3	0.5	0.3	0.4	0.3	4.0
Fuels & util.	0.8	0.4	1.1	1.1	1.2	0.5	6.7
Food/beverages	0.3	0.3	-0.1	0.4	0.2	0.4	2.9
• Food	0.3	0.3	-0.1	0.4	0.2	0.4	3.0
Apparel	0.4	-0.4	-0.2	0.4	0.6	-1.4	-0.5
Transportation	0.1	-0.7	0	-1.8	-0.4	1.2	-0.1
Medical care	0.5	0.3	0.5	0.2	0.3	0.2	2.8
Recreation	0.4	0.1	0	-0.1	0.3	1.0	2.1
Education, comm.	0.1	0.1	-0.1	0.3	0.2	0.3	0.5
Other good, serv.	0.4	0.5	0.1	1.0	0.6	-0.3	3.7
Commodities	0.3	-0.1	0	-0.4	0.1	0.4	0.6

Source: Haver Analytics.

- Price pressures picked up in the US in June as headline prices rose by 0.3% m/m, in line with the consensus expectation and boosted by a rebound in energy prices, which left the annual rate three ticks faster at 2.7%. Core prices (ex. food/energy) were a tick softer than expected at 0.2% m/m, leaving the annual rate one tick higher at 2.9%. Core goods inflation rose by 0.2% m/m, that comes after three consecutive months of essentially flat price growth. Service inflation modestly picked up driven by a jump in medical care services costs. The passthrough of tariffs continues to be modest given businesses stocking up on pre-tariff inventories, particularly of autos, in addition to absorbing some of the costs in margins. However, those inventories are becoming thinner and we expect to see more tariff passthrough ahead, which will keep the Fed on the sidelines for now.
- While the overall impact of tariffs remains modest, that is mostly because car prices remained subdued (-0.3% for new cars, -0.7% for used cars), a sign of softening demand and dealer lots full of cars imported before the administrations tariffs were imposed. Outside of autos, there are more clear signs of tariffs showing up. Apparel (+0.4%), recreational commodities (+0.8%) and household furnishings and supplies (+1.0%) all showed material price increases. As we get through to the fall and 2026 models start to show up on dealer lots, auto prices too we likely turn and core goods inflation will look even hotter.

- Services inflation modest picked up (+0.3%) from May as services excluding shelter rose modestly due to higher medical services costs. But shelter moderated on a further drop in hotel prices, a sign of weak tourism demand. Rent and OER were about unchanged from the prior month.
- Overall, inflation modestly surprised to the downside but it's really car prices masking the tariff impact on core goods and the drop in hotel prices also contributed to somewhat softer service inflation. The Fed will be focused on the durability of those trends and will take their time to assess given the labor market looks healthy.

Implications & actions

Re: Economic forecast — The underlying details on US inflation showed greater tariff pass-through on some categories and there was some extra help from very weak hotel prices that kept core inflation a bit weaker. The Fed will be focused on the durability of those trends. We continue to expect one cut from the Fed this year in December.

Re: Markets — Bond yields and the broad dollar have modestly risen since the release.

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