Economic Update

April 10, 2025

CPI Inflation Declined by 0.1% in March 2025 Ahead of Tariff Impacts, up 2.4% Year-over-Year

- **Topline CPI fell by 0.1% in March 2025 in seasonally-adjusted terms (+2.4% year-over-year)**
- **Core CPI inflation, less Food & Energy, rose by only 0.1% in March 2025, the metric's meekest gain since January 2021**
- **Housing inflation took a step back in March 2025, rising just under 0.3% after reaching an 11-month high pace in February**
- **Energy CPI fell by 2.4% in March 2025 alone, sending prices 3.2% lower than one year ago**

The topline Consumer Price Index (CPI) inflation came in under PNC's expectations at -0.1% for March 2025. Core CPI inflation, which mirrors the metric that the Federal Reserve targets in its monetary policy impact goals (the Core Personal Consumption Expenditures Deflator), gained only 0.1% for the month, which was also weaker than PNC's forecast for the month. An easing of Housing inflation – the CPI's largest driver – and a pause in Recreation-related price trends joined the dramatic drop in Energy CPI to generate March's weaker price growth results overall.

The +0.1% Core CPI gain in February 2025, which excludes volatile food and energy inputs, translates to a 2.8% year-over-year growth rate. March 2025 now stands as the first month that the Core CPI metric has fallen below the 3% growth threshold in year-over-year terms since March 2021. The 90-day pause in the imposition of tariffs announced on Wednesday afternoon excluded imports of goods made in China, which should keep hopes of a continuation of weaker Core CPI growth tempered for the time being given the volume of U.S. consumer goods that are currently still slated for tariff-related price hikes.

The Transportation category of the CPI dropped by 1.8% in March 2025 on the back of a 6.3% decline in Gasoline CPI and a -2.4% monthly change in Energy prices overall. Vehicle prices are set for a rollercoaster trend in the near term as brands offer pricing schemes aimed at keeping sales from collapsing and both the rhetoric and actions regarding auto imports remains unsettled. New Vehicle CPI gained 0.1% on the month in March 2025 after falling by 0.1% in February. Used Vehicles, on the other hand, posted a much more eye-catching 0.7% monthly decline after an exceptionally strong growth pace through 2024Q4 and to open this year. How consumer preferences and budget requirements affect the new vs. used car purchasing dynamic in the coming months will be must-see viewing.

The Housing CPI sub-index gained 0.3% for the month in March 2025, which allowed the year-over-year gain to fall to 3.7%. Accounting for more than 40% of the total CPI index, the U.S. housing market's influence on inflation is difficult to overstate. A lack of housing supply across the U.S. from every conceivable perspective

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makes any resolution to the rough-terrain homebuying experience only a long-term hope, and the pressure on topline inflation measures in the U.S. economy will linger as a result. But with economic uncertainty now creeping into sentiment indicators of economic expectations, demand for housing could ease and the Housing CPI metric would then have a chance of re-aligning with the overall CPI index – even if their trends remain somewhat above the Fed's 2% average goal in the intermediate term.

PNC is calling for two (2) 25 basis point rate cuts from the Fed in 2025 – a scaled back pace of easing that has considered the still-strong pace of inflation in recent months and considers the impact that tariffs are likely to have on prices in the near term. Few economic numbers themselves indicate fundamental weaknesses in the U.S. economy or growing imbalances, but a lack of progress toward policy goals will keep interest rates from normalizing as quickly as had been hoped for through much of 2024 and even by some who may be predicting more profound U.S. economic weakness through the remainder of this year. March 2025's CPI inflation results provide a measure of comfort that whatever price trends may result from the imposition of broadbased tariffs in the coming months, at least they will not be compounding upon other more structurally based consumer price pressures.

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