

Headline and Core Prices Both Up 0.2% in April; Year-Ago Inflation Eases to Slowest Pace in Four Years; No Evidence Yet of Tariff-Induced Price Hikes

- Both headline and core CPI inflation were 0.2% in April on a monthly basis.
- Year-over-year headline inflation slowed to 2.3% in April, the slowest pace since early 2021. Core inflation was unchanged at 2.8%.
- There was no apparent impact of tariffs on prices in April, but they are likely to drive inflation higher in the near term.
- PNC expects four fed funds rate cuts in 2025.

Inflation was moderate in April, according to the Consumer Price Index release from the Bureau of Labor Statistics. Overall prices increased 0.2% for the month, after falling 0.1% in March. Less volatile core inflation, which excludes food and energy, was also 0.2% in April, and was 0.1% in March.

On a year-ago basis headline inflation fell to 2.3% in April (before seasonal adjustment) from 2.4% in March. This was the lowest reading for total CPI inflation on a year-over-year basis since February 2021, as supply chain issues following the pandemic led to the highest inflation in 40 years. Headline inflation peaked at above 8% in the fall of 2022.

Core inflation was 2.8% year-over-year in April, the same pace as in March. Core inflation peaked at close to 7% in the fall of 2022 and gradually receded since then, but is still running above its pre-pandemic trend of around 2%.

There was little indication in the April CPI report of tariffs causing higher goods prices. Energy commodity prices fell 0.2% over the month, following a 6.1% drop in March. Food at home prices fell 0.4% in April. And commodities prices excluding food and energy rose a scant 0.1%.

Core services prices, excluding energy, rose 0.3% in April, up from 0.1% core services inflation in March. On a year-ago basis core services prices were up 3.6%, the same inflation as in March. While this is a slowing from a peak of above 7% in early 2023, it is well above the pre-pandemic pace of below 3%.

The April CPI release was consistent with recent inflation reports. Both headline and core CPI inflation were moderate on a monthly basis. Overall inflation continues to slow and is almost back to where it was before the pandemic. Falling energy prices in recent months have pushed headline inflation lower. But core inflation, although easing, is still above where it was prior to the pandemic, due primarily to elevated services inflation.

Tariffs are likely to drive inflation higher in the near term, although there was little apparent impact in April. Even with the recent agreement between the Trump administration and China to reduce the most onerous import taxes, tariffs against all U.S. trading partners are much higher than they were at the beginning of 2025.

Those higher tariffs will work their way into consumer goods prices over the next few months, pushing inflation back up.

The April CPI report does not change the outlook for monetary policy. The Federal Open Market Committee has set an inflation objective of 2% using a different measure, the personal consumption expenditures price index, which tends to run a bit lower than CPI inflation. Both overall and core PCE inflation have been slowing over the past couple of years, but remain higher than the Fed would like. The FOMC is waiting to see the impact of tariffs on inflation and the labor market before adjusting their key short-term policy rate, the federal funds rate. PNC expects tariffs to result in slower economic growth and a softer labor market over the next few months. Even as inflation reaccelerates in the near term the central bank will be more concerned about the labor market, leading to four fed funds rate cuts in the second half of 2025, each of 25 basis points. This would take the fed funds rate down to a range of 3.25% to 3.50% at the end of 2025.

Shelter inflation was 0.3% in April from March, near the pace in recent months. On a year-ago basis shelter inflation was 4.0% in April, unchanged from March. Shelter inflation, which makes up more than one-third of overall inflation and more than 40% of core inflation, has been consistently above its pre-pandemic rate over the past few years. Shelter inflation is the primary reason why overall and core inflation remain higher than the Fed would like in 2025. Shelter inflation should continue to gradually ease, but in the near term tariffs will more than offset this disinflationary impact.

PNC Economics

Gus Faucher, Chief Economist

economics@pnc.com

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