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IDEA

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US Economics Weekly | North America

The other side of tariffs: Disinflation in the pipeline

Payback from an end to tariff pass-through could mean a 70bp reduction in the year-on-year rate of inflation if tariff-exposed goods prices move back to their pre-Liberation Day trend. In our view, this creates a high bar for oil and demand pressures to mean inflation firms and the Fed hikes.

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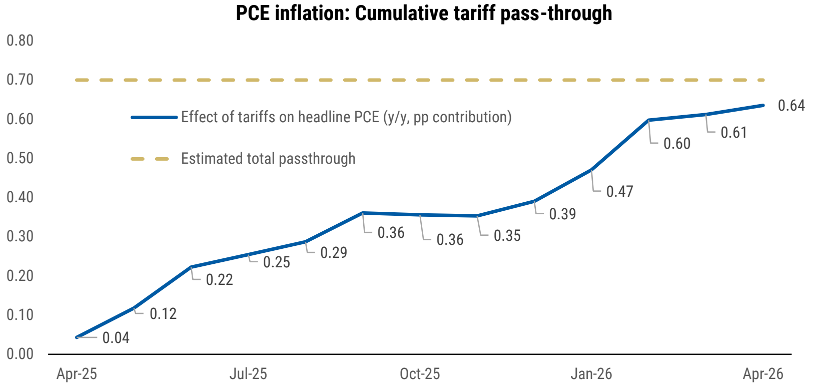
Key Takeaways

- Investors largely agree with our outlook for a resilient economy, but disagree with our outlook for a near-term peak in inflation followed by deceleration.
- Market pricing is in line with our "permanent oil premium" and "aggregate demand" alternative scenarios, which contain firmer inflation and risks of Fed hikes.
- We believe tariff pass-through is ending. Tariff-exposed goods prices were flat in 2023-24, implying up to 70bp payback to a year-on-year rate of inflation.
- If correct, the direct and indirect effects of higher oil and demand-driven price pressures need to be this large just to keep inflation from decelerating.

Exhibit 1: What tariffs added, tariffs can take away? After adding nearly 70bp to the y/y rate of inflation, we think tariffs pass through is nearly complete



The other side of tariffs: Disinflation in the pipeline

Our mid-year update is out, and the early reviews are in (see US Economics Mid-Year Outlook: Capex over Consumption). There is general agreement with our view that higher oil prices should pose a headwind to the consumer, but not change the trajectory of the US economy, where growth in economic activity continues to be supported by AI-related business spending, healthy upper-income household balance sheets, and loose fiscal policy. We have received little push-back around our forecast for growth in real GDP (2.3% and 2.6% 4Q/4Q in 2026 and 2027) and our outlook for a stable labor market with some improvement in labor demand. There are always differences in degree, but there is agreement in the resiliency of the US economy.

Questions remain about 1) further fiscal stimulus ahead of the midterms, 2) the outcome of Section 232 and 301 trade investigations, and 3) the pending review of the USMCA trade agreement. On net, investors are inclined to think the bar for further stimulus is high, a push on tariffs ahead of the midterms where affordability is a key issue is unlikely, and substantive changes in the USMCA are low probability. We agree.

The push-back: Oil and demand side pressures to keep inflation firm

That said, investors generally disagree with our outlook on inflation and its implications for the Fed. We expect a near-term peak in headline inflation, followed by gradual descent. We see headline and core PCE inflation at 3.2% and 2.8% this year, and 2.0% and 2.3% next year (each 4Q/4Q). If our baseline outlook for benign de-escalation is correct, the Fed is on hold through year-end, then easing 25bp in March and June of 2027.

Markets disagree and appear aligned with a weighted average of our "permanent oil premium" and "aggregate demand" alternative scenarios, where persistently high energy prices and AI-related demand effects keep inflation firm (see the alternative scenarios from our Mid-Year Outlook). In our permanent oil premium scenario, we see the Fed on hold through 2027. In our aggregate demand upside scenario, the Fed hikes 100bp in 2027 to curb inflation pressures.

Exhibit 2: Treasury yields remain highly correlated with oil price expectations

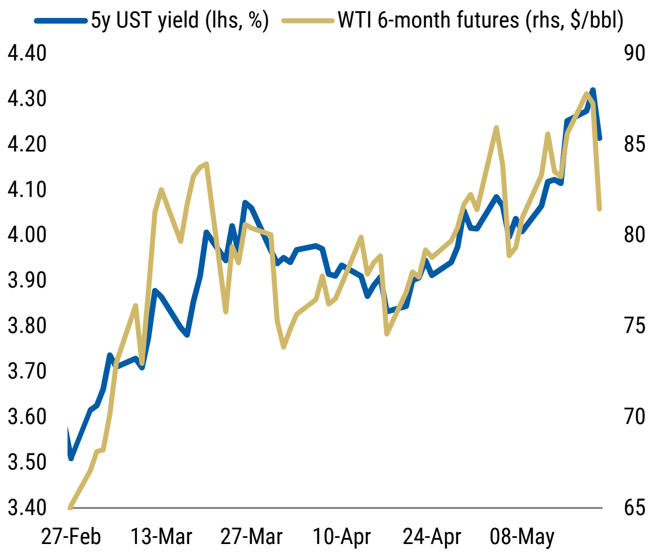
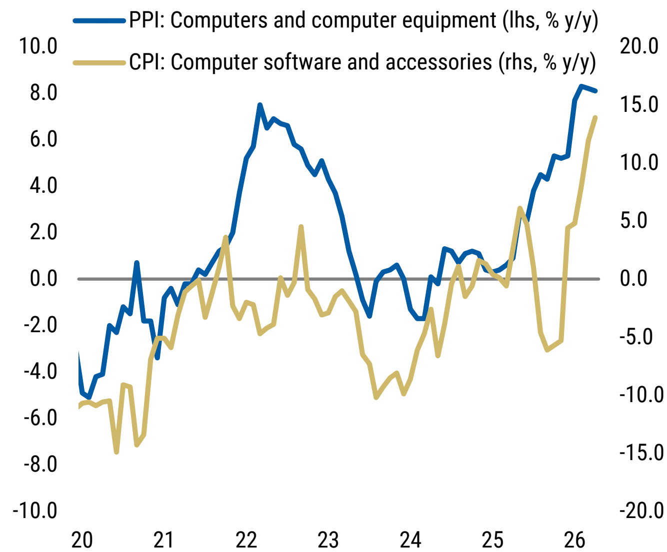


Exhibit 3: AI-related demand is pushing software and memory prices higher



The outlook for rates remains heavily dependent on expectations for oil prices, the resolution of the Middle East conflict, and the reopening of the Strait of Hormuz. In Exhibit 2 , we plot the yield on the 5y US Treasury note against the WTI six-month future contract. The near lock-step movement in yields and oil prices suggests much of the bond market selloff in recent weeks came as a result of the rise in oil prices, as expectations of a reasonably quick de-escalation of tensions between the US and Iran were revised.

That said, "much" is not "all" and we are increasingly hearing concerns that AI-driven demand could create a broader reflationary outcome. Proponents of this view point to computer software and accessories in CPI, which is up 13.9% y/y through April, and rising cost of memory, which could flow through to PPI categories like electronic computers and computer equipment, which is up 8.1% y/y.

The end of tariff pass-through could bring substantial payback in core goods prices

In response – and in defense of our view – we make the following point. According to our model estimates, we expected tariffs to push up the year-on-year rate of inflation by 70bp and our tracking estimates of tariff pass-through suggests we are nearly there. In Exhibit 4 we plot two indices for goods prices within PCE that we think are exposed to tariffs – those more exposed to tariffs and those less exposed to tariffs (but still exposed). Sub-components of goods prices more exposed to tariffs have generally seen greater price increases over time, but goods with less exposure to tariffs have caught up recently. Both indices are up similar amounts, on net.

In Exhibit 5 , we show cumulative tariffs pass-through into the year-on-year rate of PCE inflation. Through April, we estimate 64bp of our forecasted 70bp of pass through has been completed. If we are right, two conclusions can be drawn. First, the rate of increase in goods prices should decelerate in the coming months as pass-through is completed. NIPA data on the nonfinancial corporate sector indicates that firms have raised output prices by more than non-labor costs increased in 2025. That suggests to us that pricing adjustments following Liberation Day have been implemented.

Second, inflation payback from an end to tariff pass-through could mean a 70bp reduction in the year-on-year rate of inflation if these goods components move back to their pre-Liberation Day trend. Good prices with high exposure to tariffs were flat on a m/m basis in 2023-24, while goods categories with less exposure to tariffs were up 0.1% per month. They have been up 0.22-0.25% m/m since. There is room for payback.

Our point is that the sum of the direct and indirect effects of oil and AI-related demand on inflation need to be 70bp in terms of a year-on-year rate of inflation to keep inflation from decelerating, all else equal. They need to be stronger than this to indicate inflation is firming. This is under the assumption that core goods return to their pre-tariff trend. Perhaps they don't and the bar for stable or firming inflation is lower. However, if goods prices return to prior trends and the conclusion of Section 232 and 301 trade reviews do not bring meaningfully higher effective tariff rates, then we think it is unlikely that inflation firms and prompts hikes from the Fed. If so, then markets will likely reduce the probability it places on rate hikes as month-on-month rates of inflation slow into year-end.

Exhibit 4: Goods prices with tariff exposure have moved steadily higher, with high-tariff goods leveling out in April

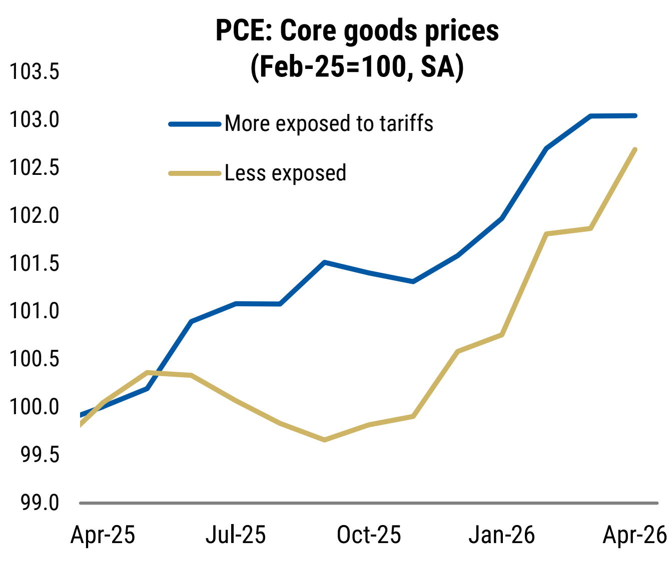
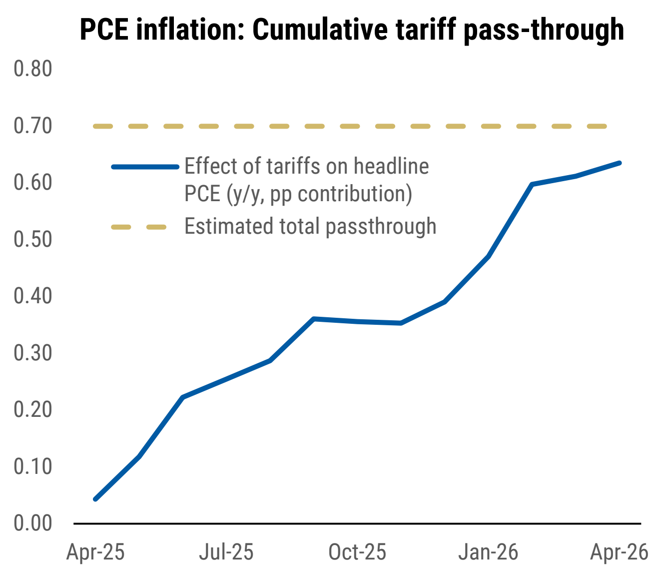


Exhibit 5: After adding nearly 70bp to the y/y rate of inflation, we think tariffs pass through is nearly complete

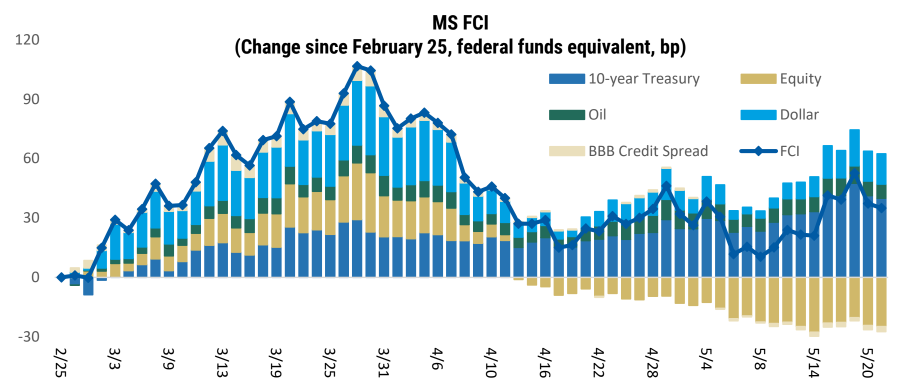


Financial Conditions: The market is doing the Fed's work so far

Following the conflict in the Middle East and the uncertainty it brings to the next steps for monetary policy, we include the evolution of our FRB/US-based model of financial conditions, which aims to capture how changes in asset prices weigh on future economic activity. The index includes five daily variables: the 10-year Treasury yield, S&P 500 returns, the corporate BBB credit spread, the valuation of the U.S. dollar, and the price of oil. These are aggregated based on their estimated growth elasticities relative to the federal funds rate, using the Federal Reserve's FRB/US model. As a result, the index can be interpreted as the equivalent change in the federal funds rate, expressed in basis points, required to generate a similar effect on economic activity.

Since hostilities in the Middle East began on February 28, the tightening in financial conditions is equivalent to about a 35bp rise in the federal funds rate. Since the April 7 ceasefire announcement, however, financial conditions have eased by 37bps. The tightening reversed all of the easing seen earlier this year, most of which occurred between the December and January FOMC meetings, and was primarily driven by a weaker U.S. dollar. The net tightening since February 28 has been driven mainly by higher 10-year U.S. Treasury yields, with dollar appreciation and higher oil prices playing a secondary role. Buoyant equity markets and tighter credit spreads have provided offset.

Exhibit 6: Financial conditions have tightened following the conflict in the Middle East



The effective tariff rate and tariff receipts

The tariff rate on US imports has fallen to 8.3% in 1Q26 data

On February 20, 2026, the Supreme Court struck down the President's authority to impose tariffs under IEEPA. Section 122 tariffs will replace IEEPA tariffs in the short term, though uncertainty rises after the 150-day period when Congress would need to extend those tariffs. Replacing IEEPA with Section 122 tariffs of 15% and considering composition effects of US imports, we estimate baseline tariffs near 11%. Our estimate of "core" tariffs (ex fuels, gold and AI-related imports) remains closer to 13-14%. In our view, near-term tariffs are likely capped below 'Liberation Day' levels—at least until Section 232 and 301 investigations are complete. In the March 2026 data, the effective tariff rate is estimated at ~7%, and the 1Q26 tariff rate averages to 8.3%.

Exhibit 7: US effective tariff rate

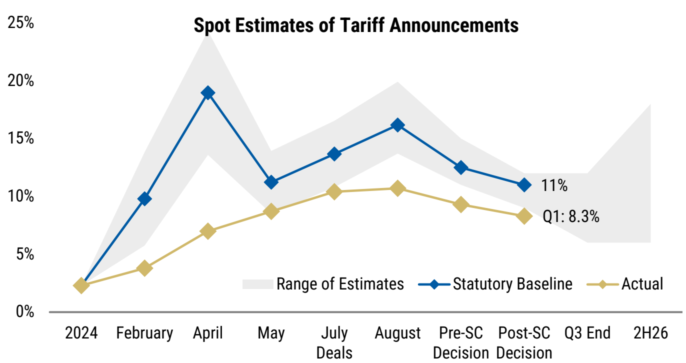
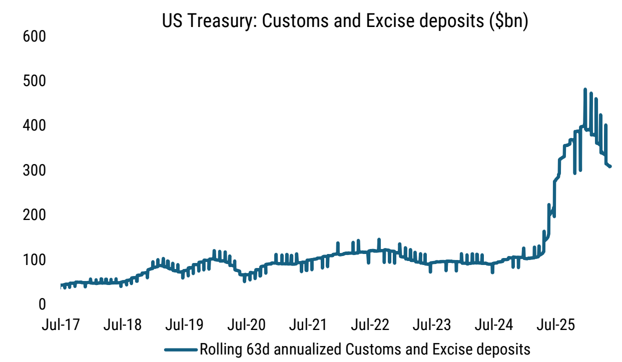


Exhibit 8: US Treasury: Customs and excise deposits from tariffs



2Q GDP Tracking at 2.4%

We recently published our US Economics Mid-Year Outlook. Our baseline view included 2Q GDP at 2.3%; we are now tracking it at 2.4%.

A week ago, stronger than expected April retail sales pushed up 2Q consumption—and after reassessment this week, we see even larger base effects from that strength in goods spending. Offsetting some of the strength, the Quarterly Services Survey suggested a softer trend in services consumption, and we extrapolate some of that softness into 2Q. Weaker purchasing power is probably holding back spending.

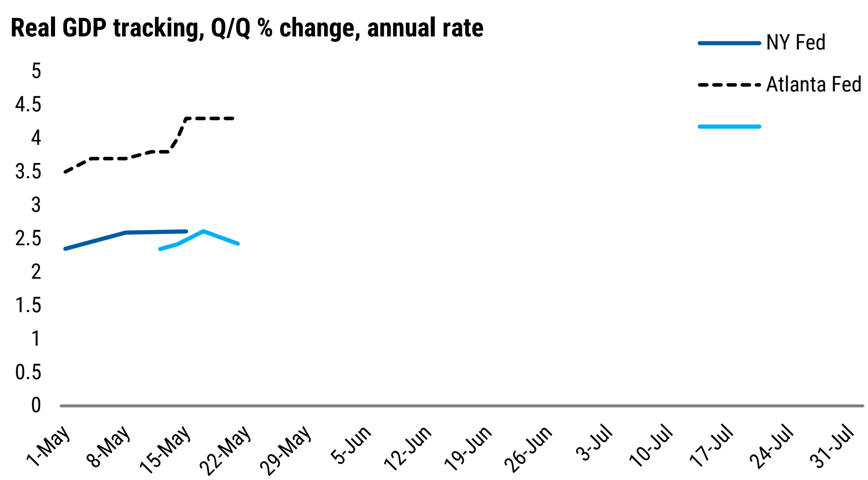
The Atlanta Fed tracking, at 4.3%, is two points higher than ours. Their consumption estimate, at 2.9% accounts for ½ point. The rest of the difference largely reflects faster inventory investment in their estimate.

Exhibit 9: The effect of incoming data on our US GDP tracking estimate

Details of Q2 2025 US GDP tracking (% q/q saar unless indicated)															
Date	**Data release**		**GDP**	**Final sales**	**PCE**	**Res**	**Equip**	**Struct**	**IPP**	**Gov**	**X**	**M**	**NX (level)**	**CIPI (level)**
12-May	Baseline		2.3	2.3	1.7	1.0	8.0	-3.0	8.0	1.4	0.0	-0.1	-1067	-5
14-May	Retail sales	Apr	2.4	2.4	**1.8**	1.0	8.0	-3.0	8.0	1.4	0.0	-0.1	-1067	-5
	Adjustments		2.6	2.8	**2.5**	1.0	8.0	-3.0	8.0	1.4	0.0	-0.1	-1067	**-19**
21-May	Quarterly Services Survey	1Q	2.4	2.6	**2.2**	1.0	8.0	-3.0	8.0	1.4	0.0	-0.1	-1067	-19
	GDP tracking		**2.4**	**2.6**	**2.2**	**1.0**	**8.0**	**-3.0**	**8.0**	**1.4**	**0.0**	**-0.1**	**-1067**	**-19**
	Contribution to GDP growth (pp)			*2.6*	*1.5*	*0.0*	*0.5*	*-0.1*	*0.5*	*0.2*	*0.0*	*0.0*	*0.0*	*-0.2*
			2.3	**2.3**	**1.7**	**1.0**	**8.0**	**-3.0**	**8.0**	**1.4**	**0.0**	**-0.1**	**-1067**	**-5**

Note: Our GDP tracking estimate is distinct from our official published GDP forecast. It reflects the mechanical aggregation of monthly activity data that feed directly into the BEA's calculation. Where data releases have implications for the tracking components, cells have been bolded.

Exhibit 10: GDP nowcasts



Data review & preview

Review of past week's data

Exhibit 11:

Monday 18 May	Data	Period	Forecast	Consensus	Prev	Actual
8:30 AM	New York Fed Services Business Activity	May			-14.0	-5.8
10:00 AM	NAHB Housing Market Index	May		34	34	37
4:00 PM	Total Net TIC Flows	Mar			184.5	150.7
4:00 PM	Net Long-term TIC Flows	Mar			58.6	81.3
Tuesday 19 May	**Data**	**Period**	**Forecast**	**Consensus**	**Prev**	**Actual**
8:00 AM	Fed's Waller speaks					
8:15 AM	ADP Weekly Employment Change	2-May			33	42
10:00 AM	Pending Home Sales m/m	Apr		1.6	1.5	1.4
10:00 AM	Pending Home Sales NSA y/y	Apr			1.8	3.3
7:00 PM	Fed's Paulson Speaks on Economic Outlook					
Wednesday 20 May	**Data**	**Period**	**Forecast**	**Consensus**	**Prev**	**Actual**
7:00 AM	MBA Mortgage Applications	15-May			1.7	-2.3
9:15 AM	Fed's Barr speaks on consumer financial health					
2:00 PM	FOMC Meeting Minutes	29-Apr				
Thursday 21 May	**Data**	**Period**	**Forecast**	**Consensus**	**Prev**	**Actual**
8:30 AM	Initial Jobless Claims	16-May			211	209
8:30 AM	Continuing Claims	9-May			1782	1782
8:30 AM	Philadelphia Fed Business Outlook	May		12.0	26.7	-0.4
8:30 AM	Housing Starts	Apr	1360	1420	1502	1465
8:30 AM	Housing Starts m/m	Apr	-9.4	-4.5	10.8	-2.8
8:30 AM	Building Permits	Apr P	1400	1385	1363	1442
8:30 AM	Building Permits m/m	Apr P	2.7		-11	5.8
9:45 AM	S&P US Manufacturing PMI	May P			54.5	55.3
9:45 AM	S&P US Services PMI	May P			51.0	50.9
9:45 AM	S&P US Composite PMI	May P			51.7	51.7
10:00 AM	Quarterly Services Survey	1Q				
11:00 AM	Kansas City Fed Manf. Activity	May			10.0	8.0
12:20 PM	Fed's Barkin speaks on economy					
4:30 PM	Fed balance sheet (H.4.1)					
Friday 22 May	**Data**	**Period**	**Forecast**	**Consensus**	**Prev**	**Actual**
10:00 AM	U. of Mich. Sentiment	May F			48	
10:00 AM	U. of Mich. 5-10 Yr Inflation	May F			3.4	
10:00 AM	Fed's Waller speaks on the outlook					
11:00 AM	Kansas City Fed Services Activity	May			3.0	
4:15 PM	Commercial bank balance sheets (H.8)	15-May				

Preview of upcoming data

Exhibit 12: Monday

Monday 25 May	Data	Period	Forecast	Consensus	Prev
	No scheduled data or Fedspeak				

Exhibit 13: Tuesday

Tuesday 26 May	Data	Period	Forecast	Consensus	Prev
8:15 AM	ADP Weekly Employment Change	9-May			0
8:30 AM	Chicago Fed Nat Activity Index	Apr			0
8:30 AM	Philadelphia Fed Non-Manufacturing Activity	May			-16.5
9:00 AM	FHFA House Price Index m/m	Mar		0.1	0.0
9:00 AM	House Price Purchase Index q/q	1Q			0.8
9:00 AM	S&P Cotality CS 20-City m/m SA	Mar		0.1	-0.1
10:00 AM	Conf. Board Consumer Confidence	May		91.5	92.8
10:30 AM	Dallas Fed Manf. Activity	May			-2.3
8:20 PM	Fed's Kashkari at BoJ Conference				

Home prices. Home price appreciation has slowed as demand remains challenged. Inventories of existing homes have picked up but are still low. However, the recent rise in mortgage rates means some of the improvement in affordability has reversed. Last year, the median income was 1.03 times the income needed to qualify for a loan on a median-priced home; that rose to 1.17 times in February but has since fallen back to about 1.08 times as of mid-May. Our housing strategists expect home price growth to reaccelerate later this year as rates decline, but it should remain limited at 2% this year and next.

Conference Board. Consumer confidence remains low, though it picked up slightly in March and April despite the oil shock. The labor market differential has also improved over the past two months, matching the decline in jobless claims and rebound in payrolls.

Exhibit 14: Wednesday

Wednesday 27 May	Data	Period	Forecast	Consensus	Prev
4:00 AM	Fed's Logan speaks				
7:00 AM	MBA Mortgage Applications	22-May			-2.3
10:00 AM	Richmond Fed Manufact. Index	May			3.0
10:00 AM	Richmond Fed Business Conditions	May			-6
10:30 AM	Dallas Fed Services Activity	May			-10
8:00 PM	Fed's Jefferson speaks				
10:25 PM	Fed's Goolsbee speaks				

Richmond & Dallas Fed. Both the Dallas Fed and Richmond Fed surveys posted solid manufacturing readings in April, supported by firm production and demand components. For May, regional signals have remained generally resilient, with strong readings from Empire and the S&P flash PMI partly offset by softer Philadelphia Fed survey data following a very strong March print. We are currently tracking May ISM manufacturing at 52.4, a decline from 52.7 in April.

Exhibit 15: Thursday

Thursday 28 May	Data	Period	Forecast	Consensus	Prev
8:30 AM	Personal Income	Apr	0.4	0.4	0.6
8:30 AM	Personal Spending	Apr	0.5	0.5	0.9
8:30 AM	Real Personal Spending	Apr	0.1		0.2
8:30 AM	PCE Price Index m/m	Apr	0.42	0.5	0.7
8:30 AM	PCE Price Index y/y	Apr	3.76	3.9	3.5
8:30 AM	Core PCE Price Index m/m	Apr	0.25	0.3	0.3
8:30 AM	Core PCE Price Index y/y	Apr	3.27	3.3	3.2
8:30 AM	GDP Annualized q/q	1Q S	1.9	2.1	2.0
8:30 AM	Personal Consumption	1Q S	1.4	1.7	1.6
8:30 AM	Core PCE Price Index q/q	1Q S			4.3
8:30 AM	Durable Goods Orders	Apr P	4.0	3.0	0.8
8:30 AM	Durables Ex Transportation	Apr P	0.7	0.4	0.9
8:30 AM	Cap Goods Orders Nondef Ex Air	Apr P	0.7	0.4	3.4
8:30 AM	Cap Goods Ship Nondef Ex Air	Apr P	0.7		1.2
8:30 AM	Initial Jobless Claims	23-May	210	213	209
8:30 AM	Continuing Claims	16-May	1.775		1.782
8:55 AM	Fed's Williams Speaks at Reykjavík Economic Conference	0-Jan			
10:00 AM	New Home Sales	Apr	680	663	682
10:00 AM	New Home Sales m/m	Apr	-0.3	-3.9	7.4
10:15 AM	Fed's Musalem Speaks at Reykjavik Economic Conference				
4:30 PM	Fed balance sheet (H.4.1)				

Personal income and spending. We expect real personal spending rose 0.1% m/m in April, with goods down 0.2% and services up 0.3%. Despite the strong retail sales in nominal terms, control group prices were higher than expected as well, and auto sales declined. Strong April payrolls should support the strength in services in this initial print, as many categories are based on the establishment survey until they get QSS data.

We expect nominal personal income rose 0.4% m/m in April, with labor compensation also up 0.4%. Proprietor's income was strong in March due to the Farmer Bridge Assistance Program. Applications for this program were open through mid-April, so we expect the strength to persist. Real disposable personal income is slightly negative due to high prices. We expect the saving rate fell from 3.6% in March to 3.5% in April.

PCE Prices. We expect core PCE inflation rose 0.25% m/m in April and headline rose 0.42% m/m. The 3-month and 6-month annualized core PCE pace as of April comes to 3.70% and 3.74% (vs. 4.43% and 3.70% in March). The y/y rate is expected to be 3.27% in April (vs 3.27% in March).

GDP. 1Q GDP revisions will reflect an altered pattern in consumption spending: upward revision to goods spending and downward revision to services, netting out to a 0.2 pct pt downward revision to real consumer spending growth to 1.4% and a 0.1 pct pt downward revision to real GDP growth to 1.9%.

Durables orders were probably boosted by aircraft orders, but we forecast solid underlying gains as well.

Jobless claims. We forecast little change in jobless claims, with new claims at 210k and continuing claims at 1.775 mil.

New home sales. Mortgage applications picked up, but starts, permits, and builder confidence were slipping in April. Our forecast for an almost unchanged 680k annual rate puts April new home sales at about the same pace as last year.

Exhibit 16: Friday

Friday 29 May	Data	Period	Forecast	Consensus	Prev
6:50 AM	Fed's Schmid speaks at Reykjavík Economic Conference				
8:30 AM	Advance Goods Trade Balance	Apr	-89.5	-87.0	-87.9
8:30 AM	Retail Inventories m/m	Apr			0.7
8:30 AM	Wholesale Inventories m/m	Apr P			1.3
9:10 AM	Fed's Bowman speaks at Reykjavík Economic Conference				
9:45 AM	MNI Chicago PMI	May		51.2	49.2
4:15 PM	Commercial bank balance sheets (H.8)	15-May			

Trade. Faster rising import prices probably pushed the deficit slightly wider in April, by $2 bn to $89.5 bn.

Data calendar

Exhibit 17: May 25 - June 5

Monday	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
25	26	27	28	29
	ADP Weekly Employment Change (Week of May 9, 8:15 AM) Chicago Fed Nat Activity Index (Apr, 8:30 AM) Philadelphia Fed Non-Manuf. Activity (May, 8:30 AM) House Price Indexes (Mar, 9 AM) Conf. Board Cosumer Confidence (May, 10 AM) Dallas Fed Manf. Activity (May, 10:30 AM) 2-Year Notes Auction (1 PM) Fed's Kashkari Speaks (8:20 PM)	Fed's Logan Speaks (4 AM) MBA Mortgage Applications (Week of May 22, 7 AM) Richmond Fed Manuf. Index (May, 10 AM) Dallas Fed Services Activity (May, 10:30 AM) 2-Year FRN Auction (11:30 AM) 5-Year Notes Auction (1 PM) Fed's Jefferson Speaks (8 PM) Fed's Goolsbee Speaks (10:25 PM)	Personal Income and Outlays (Apr, 8:30 AM) Durable Goods Orders (Apr P, 8:30 AM) Jobless Claims (Week of May 23, 8:30 AM) GDP (1Q S, 8:30 AM) Fed's Williams Speaks (8:55 AM) New Home Sales (Apr, 10 AM) Fed's Musalem Speaks (10:15 AM) 7-Year Notes Auction (1 PM)	Fed's Mary Speaks (12 AM) Fed's Schmid Speak(6:50 AM) Advance Goods Trade Balance (Apr, 8:30 AM) Wholesale and Retail Inventories (Apr, 8:30 AM) Fed's Bowman Speaks (9:10 AM) Fed's Paulson Speaks (9:15 AM) MNI Chicago PMI (May, 9:45 AM)
1	2	3	4	5
S&P Manufacturing PMI (May F, 9:45 AM) ISM Manufacturing (May, 10 AM) Construction Spending (Apr, 10 AM)	Fed's Hammack Speaks (8:30 AM) JOLTS (Apr, 10 AM) Wards Vehicle Sales (May)	MBA Mortgage Applications (Week of May 29, 7 AM) ADP Employment Change (May, 8:15 AM) S&P Services PMI (May F, 9:45 AM) Factory Orders (Apr, 10 AM) ISM Services (May, 10 AM) Beige Book (2 PM)	Challenger Job Cuts (May, 7:30 AM) Productivity and Costs (1Q F, 8:30 AM) Jobless Claims (Week of May 30, 8:30 AM)	Employment Report (May, 8:30 AM) Consumer Credit (Apr, 3 PM) Manheim Used Vehicle (Jun, 9 AM)

Note: For updates post-publication of the Treasury Auction Schedule, see here

US economic outlook

Exhibit 18:

	4Q/4Q % change			Quarterly % change, annual rate (unless otherwise noted)									
	2025A	2026E	2027E	3Q25A	4Q25A	1Q26A	2Q26E	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E
Real GDP	**2.0**	**2.3**	**2.6**	**4.4**	**0.5**	**2.0**	**2.3**	**2.3**	**2.5**	**2.4**	**2.6**	**2.6**	**2.6**
Final Sales [1]	2.2	2.1	2.3	4.5	0.3	1.6	2.3	2.2	2.4	2.1	2.4	2.4	2.4
Final Domestic Demand [2]	**1.8**	**2.4**	**2.8**	**2.8**	**0.6**	**2.8**	**2.2**	**2.3**	**2.3**	**2.6**	**2.8**	**2.8**	**2.9**
Final Private Domestic Demand [3]	2.4	2.5	3.1	2.9	1.8	2.5	2.4	2.5	2.5	2.8	3.1	3.2	3.2
Personal Consumption Expenditures	2.1	1.8	2.1	3.5	1.9	1.6	1.7	1.9	1.9	1.8	2.2	2.2	2.2
– Goods	1.4	0.6	1.6	3.0	0.3	-0.1	0.5	1.0	1.0	1.2	1.7	1.7	1.7
– Services	2.4	2.3	2.3	3.6	2.7	2.4	2.3	2.3	2.3	2.1	2.4	2.4	2.4
Nonresidential Fixed Investment	5.6	7.0	8.0	3.2	2.4	10.4	5.9	5.9	5.9	7.9	8.0	8.0	8.0
– Structures	-5.5	-3.9	2.0	-5.0	-6.5	-6.7	-3.0	-3.0	-3.0	2.0	2.0	2.0	2.0
– Equipment	9.6	10.2	10.5	5.2	4.3	17.2	8.0	8.0	8.0	10.5	10.5	10.5	10.5
– IPP	8.0	9.2	8.0	5.6	5.4	13.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Residential Investment	-3.8	-1.3	1.5	-7.1	-1.7	-8.0	1.0	1.0	1.0	1.5	1.5	1.5	1.5
Exports	1.1	4.1	1.8	9.6	-3.2	12.9	0.0	1.0	2.5	1.8	1.8	1.8	1.8
Imports	-1.9	6.3	5.0	-4.4	-1.0	21.4	-0.1	2.0	2.0	5.0	5.0	5.0	5.0
Government	-1.2	2.2	1.3	2.2	-5.6	4.4	1.4	1.4	1.4	1.3	1.3	1.3	1.3
Inventory contribution (pct pts, a.r.)	-0.2	0.1	0.2	-0.1	0.1	0.4	0.0	0.0	0.0	0.2	0.2	0.2	0.2
Trade contribution (pct pts, a.r.)	0.4	-0.4	-0.4	1.6	-0.2	-1.3	0.0	-0.2	0.0	-0.5	-0.5	-0.5	0.0
Nominal GDP (Current $)	5.4	5.4	4.7	8.3	4.2	5.6	7.5	4.3	4.1	4.7	4.5	4.6	4.9
Nominal Consumption	5.0	5.0	4.1	6.3	4.9	6.1	7.0	3.8	3.3	4.1	3.9	4.0	4.5
Employment & Personal Income													
Civilian Unemployment Rate (%)	**4.5**	**4.3**	**4.1**	**4.3**	**4.5**	**4.3**	**4.3**	**4.3**	**4.3**	**4.2**	**4.2**	**4.1**	**4.1**
Civilian Labor Force Participation Rate (%)	62.5	61.8	61.7	62.3	62.5	62.0	61.9	61.8	61.8	61.8	61.7	61.7	61.7
Employment to Population Ratio (%)	59.7	59.2	59.1	59.6	59.7	59.3	59.2	59.2	59.2	59.1	59.1	59.1	59.1
Average Monthly Change in Nonfarm Payrolls (Thous.)	10	43	60	23	-39	68	43	30	30	60	60	60	60
Real DPI	1.3	1.2	1.7	1.0	0.0	1.5	-0.8	1.9	2.4	1.3	1.4	2.2	2.0
Saving rate (%)	4.0	3.5	3.2	4.4	4.0	4.0	3.4	3.4	3.5	3.4	3.2	3.2	3.2
Business Indicators													
Industrial Production	1.6	2.4	2.5	2.1	-1.7	7.4	0.3	0.9	1.1	2.4	2.5	2.5	2.5
Productivity	2.6	1.8	2.1	5.2	1.8	1.6	1.9	1.7	1.9	1.9	2.2	2.2	2.2
Inflation (quarterly % change, a.r.)													
Consumer Price Index				3.1	2.5	3.6	6.9	2.0	1.3	2.1	1.5	1.8	2.6
CPI ex Food & Energy				3.2	2.0	2.8	3.2	2.5	2.3	3.0	1.9	2.3	2.8
PCE Price Index				2.8	2.9	4.5	5.1	1.8	1.4	2.3	1.7	1.8	2.2
PCE ex Food & Energy				2.9	2.7	4.3	3.0	2.1	1.9	2.9	1.9	2.1	2.4
Inflation (4-quarter % change)													
Consumer Price Index	2.7	3.4	2.0	2.9	2.7	2.7	4.0	3.7	3.4	3.0	1.7	1.7	2.0
CPI ex Food & Energy	2.7	2.7	2.5	3.1	2.7	2.5	2.8	2.6	2.7	2.7	2.4	2.4	2.5
PCE Price Index	2.8	3.2	2.0	2.7	2.8	3.1	3.8	3.6	3.2	2.6	1.8	1.8	2.0
PCE ex Food & Energy	**2.9**	**2.8**	**2.3**	**2.9**	**2.9**	**3.1**	**3.2**	**3.0**	**2.8**	**2.5**	**2.2**	**2.2**	**2.3**
Monetary Policy													
Fed Funds Target (%, midpoint of target range)	**3.625**	**3.625**	**3.125**	**4.125**	**3.625**	**3.625**	**3.625**	**3.625**	**3.625**	**3.375**	**3.125**	**3.125**	**3.125**
Fiscal Policy													
Federal Budget balance (% of GDP)	-5.4	-6.3	-6.1										

1) GDP less contribution from inventory investment
2) GDP less contributions from inventory investment and trade
3) GDP less contributions from inventory investment, trade, and the government sector. (Private final consumption plus investment.)

Exhibit 19: Monthly inflation forecasts

	% Change - Year-over-Year					% Change - Month-over-Month				Headline CPI
	Headline PCE	**Core PCE**	**Headline CPI**	**Core CPI**		**Headline PCE**	**Core PCE**	**Headline CPI**	**Core CPI**	**NSA Index**
Jan-25	2.6	2.8	3.0	3.3	Jan-25	0.37	0.31	0.43	0.43	317.671
Feb-25	2.7	3.0	2.8	3.1	Feb-25	0.40	0.45	0.23	0.25	319.082
Mar-25	2.4	2.7	2.4	2.8	Mar-25	0.02	0.10	0.03	0.07	319.799
Apr-25	2.3	2.6	2.3	2.8	Apr-25	0.17	0.19	0.16	0.24	320.795
May-25	2.5	2.8	2.4	2.8	May-25	0.18	0.23	0.10	0.13	321.465
Jun-25	2.6	2.8	2.7	2.9	Jun-25	0.29	0.26	0.25	0.23	322.561
Jul-25	2.6	2.9	2.7	3.1	Jul-25	0.17	0.25	0.23	0.31	323.048
Aug-25	2.7	2.9	2.9	3.1	Aug-25	0.26	0.22	0.35	0.31	323.976
Sep-25	2.8	2.8	3.0	3.0	Sep-25	0.26	0.19	0.30	0.22	324.800
Oct-25	2.7	2.8	2.9	2.8	Oct-25	0.19	0.23	0.13	0.09	#N/A
Nov-25	2.8	2.8	2.7	2.6	Nov-25	0.22	0.18	0.13	0.09	324.122
Dec-25	2.9	3.0	2.7	2.6	Dec-25	0.33	0.33	0.30	0.23	324.054
Jan-26	2.9	3.1	2.4	2.5	Jan-26	0.33	0.42	0.17	0.30	325.252
Feb-26	2.8	3.0	2.4	2.5	Feb-26	0.38	0.37	0.27	0.22	326.785
Mar-26	3.5	3.2	3.3	2.6	Mar-26	0.66	0.29	0.87	0.20	330.213
Apr-26	**3.8**	**3.3**	3.8	2.7	**Apr-26**	**0.42**	**0.25**	0.64	0.38	333.020
May-26	**3.9**	**3.3**	**4.2**	**2.9**	**May-26**	**0.36**	**0.23**	**0.47**	**0.24**	**334.955**
Jun-26	**3.8**	**3.2**	**4.1**	**2.8**	**Jun-26**	**0.18**	**0.17**	**0.22**	**0.19**	**335.975**
Jul-26	**3.7**	**3.1**	**3.9**	**2.7**	**Jul-26**	**0.07**	**0.17**	**0.02**	**0.19**	**335.778**
Aug-26	**3.6**	**3.0**	**3.7**	**2.6**	**Aug-26**	**0.14**	**0.17**	**0.15**	**0.20**	**336.081**
Sep-26	**3.5**	**3.0**	**3.6**	**2.6**	**Sep-26**	**0.17**	**0.18**	**0.20**	**0.21**	**336.627**
Oct-26	**3.3**	**2.9**	**3.5**	**2.7**	**Oct-26**	**0.04**	**0.15**	**-0.01**	**0.18**	**336.052**
Nov-26	**3.2**	**2.9**	**3.4**	**2.8**	**Nov-26**	**0.11**	**0.16**	**0.09**	**0.19**	**335.360**
Dec-26	**3.1**	**2.7**	**3.4**	**2.7**	**Dec-26**	**0.18**	**0.16**	**0.24**	**0.19**	**335.087**
Jan-27	**3.0**	**2.7**	**3.4**	**2.8**	**Jan-27**	**0.26**	**0.36**	**0.18**	**0.35**	**336.341**
Feb-27	**2.7**	**2.5**	**3.2**	**2.8**	**Feb-27**	**0.13**	**0.21**	**0.09**	**0.23**	**337.327**
Mar-27	**2.3**	**2.4**	**2.5**	**2.7**	**Mar-27**	**0.20**	**0.16**	**0.23**	**0.15**	**338.722**
Apr-27	**2.0**	**2.3**	**2.0**	**2.5**	**Apr-27**	**0.12**	**0.16**	**0.09**	**0.15**	**339.740**
May-27	**1.7**	**2.2**	**1.6**	**2.4**	**May-27**	**0.12**	**0.15**	**0.09**	**0.14**	**340.414**
Jun-27	**1.7**	**2.2**	**1.5**	**2.3**	**Jun-27**	**0.13**	**0.15**	**0.11**	**0.13**	**341.072**
Jul-27	**1.7**	**2.2**	**1.6**	**2.3**	**Jul-27**	**0.11**	**0.18**	**0.08**	**0.20**	**341.096**
Aug-27	**1.8**	**2.2**	**1.6**	**2.4**	**Aug-27**	**0.20**	**0.19**	**0.23**	**0.23**	**341.675**
Sep-27	**1.8**	**2.2**	**1.7**	**2.4**	**Sep-27**	**0.22**	**0.19**	**0.27**	**0.23**	**342.449**
Oct-27	**1.9**	**2.3**	**1.8**	**2.4**	**Oct-27**	**0.13**	**0.20**	**0.11**	**0.23**	**342.287**
Nov-27	**2.0**	**2.3**	**2.0**	**2.5**	**Nov-27**	**0.20**	**0.19**	**0.23**	**0.23**	**342.055**
Dec-27	**2.1**	**2.4**	**2.1**	**2.5**	**Dec-27**	**0.25**	**0.19**	**0.33**	**0.23**	**342.108**