Daiwa Capital Markets

U.S. Economic Comment

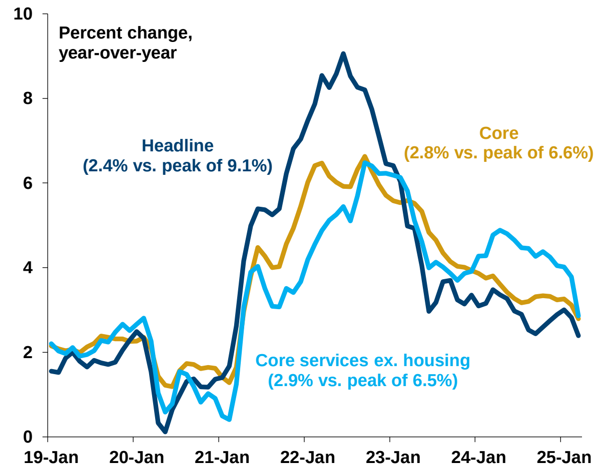
- The March inflation data: results for the CPI & PPI suggest year-over-year deceleration in core PCE index
- Consumer sentiment: dour attitudes; another jump in inflation expectations

Lawrence Werther
lawrence.werther@us.daiwacm.com
+1-212-612-6393
Brendan Stuart
brendan.stuart@us.daiwacm.com
+1-212-612-6172

Subdued Inflation in March

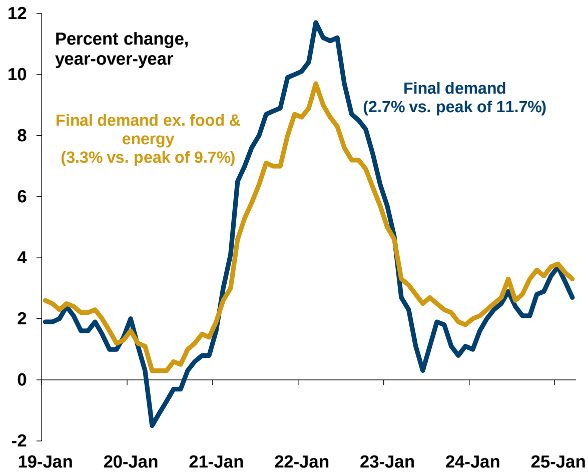
The first round of key inflation data for March were released this week with results for both the CPI and PPI printing well below market expectations. The headline CPI dipped 0.1 percent (versus the Bloomberg survey median of +0.1 percent), while the core index rose 0.1 percent (versus +0.3 percent expected). The monthly shifts translated to year-over year advances of 2.4 percent and 2.8 percent, respectively, down from 2.8 percent and 3.1 percent in the prior month (chart, below left). PPI data, which measures prices received by producers, also improved. The headline index slipped 0.4 percent (versus +0.2 percent expected), and the measure excluding food and energy eased 0.1 percent (versus +0.3 percent). Moreover, year-over-year readings moderated, with headline producer inflation easing to 2.7 percent from 3.2 percent previously and that excluding food and energy improving two ticks to 3.3 percent (chart, below right).

CPI



Source: Bureau of Labor Statistics via Haver Analytics

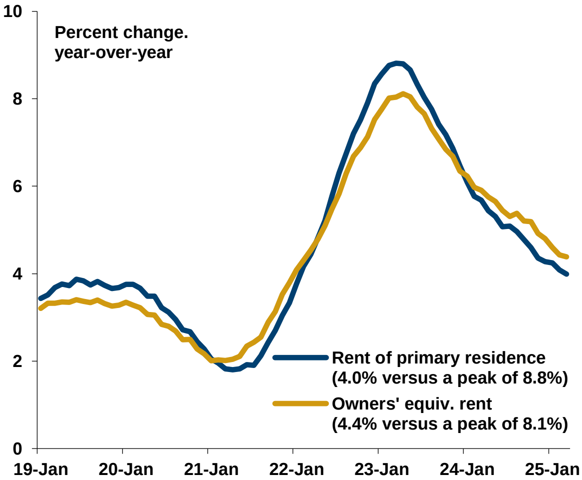
PPI



Source: Bureau of Labor Statistics via Haver Analytics

Drilling down into the CPI data yielded additional evidence of recent assessments by Fed officials that price dynamics in the services area could provide an additional push to the current disinflationary process (at least until the progress is interrupted by tariff-related price pressure). In March, the broad services excluding energy services area rose 0.1 percent (+3.7 percent year-over-year versus +4.1 percent in February). Importantly, housing-related components continued to be well behaved, with rent of primary residence advancing 0.3 percent and owners' equivalent rent of residences increasing 0.4 percent. On a year-over-year basis, primary rents are within striking distance of the pre-pandemic trend (+4.0 percent in March versus readings centered around +3.8 percent in the year preceding the pandemic) – which was consistent with aggregate 2 percent inflation – while owners' equivalent

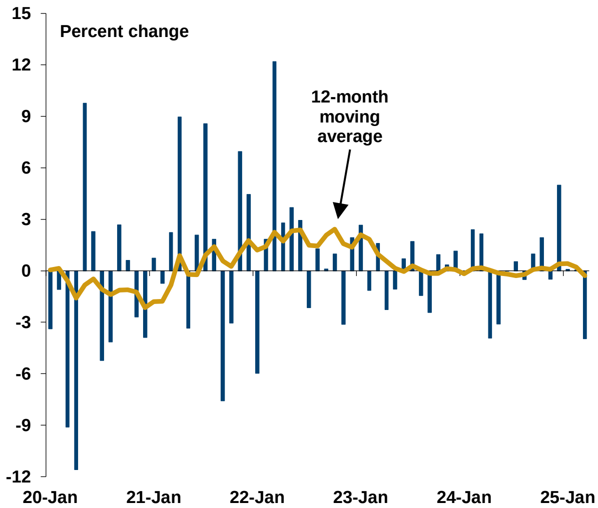
CPI: Primary Housing



Source: Bureau of Labor Statistics via Haver Analytics rent is still elevated at 4.4 percent but making incremental progress (chart, prior page, bottom right). More encouraging was the decline of 0.2 percent in core services excluding rents and OER (versus an average increase of 0.4 percent in the trailing six months). The change led to a sharp drop in the year-over-year advance to 2.9 percent from 3.8 percent in February – massive improvement in a previously sticky area (see chart on core CPI, prior page). With that said, we were a bit concerned about the data regarding underlying demand, particularly with respect to discretionary areas of spending. Specifically, we note the plunge of 5.3 percent in airline fares (-5.2 percent year-over-year), drop of 4.3 percent in hotel and motel fees (-3.7 percent year-over-year), and decline of 2.7 percent in car and truck rentals (-8.7 percent year-over-year). These services are often utilized by travelers, with the shifts indicating a potential pullback in response to prevailing economic uncertainty (thereby generating a decline in prices). That is to say, vigilance is warranted with respect to the demand side of the economy – even if it generates desirable disinflationary forces.

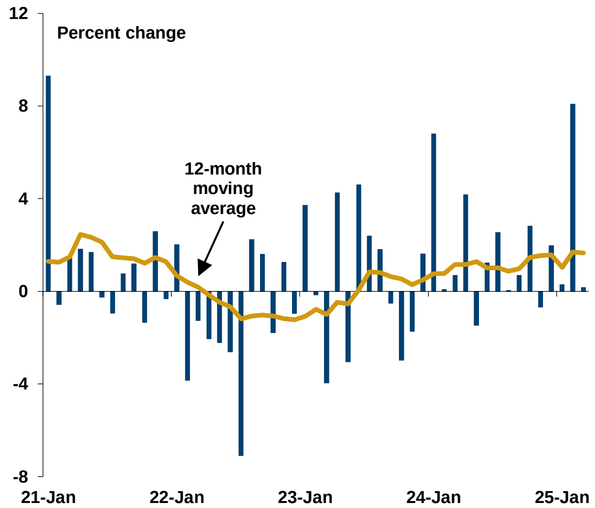
Beyond the CPI, today's results for the PPI allowed us to better calibrate our expectations for the Price Index for Personal Consumption Expenditures released with the Personal Income and Consumption report on April 30. Although difficult to sift through the entirety of the overwhelming detail of the PPI, a few key areas help guide expectations for PCE. Among these is the airline passenger services component, which fell 4.0 percent month-to-month, and the portfolio management fees component, which rose a modest 0.2 percent (charts, below). These results, along with those for the CPI, suggest a monthly increase in the core PCE index of 0.1 percent and a year-over-year increase of 2.6 percent (versus +2.8 percent in February). The expected results will be a welcome development, as they perhaps provide the FOMC more room to address potential weakening in the economy, but again, March is perhaps the last month of inflation data not (or only modestly) influenced by the Trump administration's perpetually fluctuating tariffs.

PPI: Airline Passenger Services



Source: Bureau of Labor Statistics via Haver Analytics

PPI: Portfolio Management Fees*



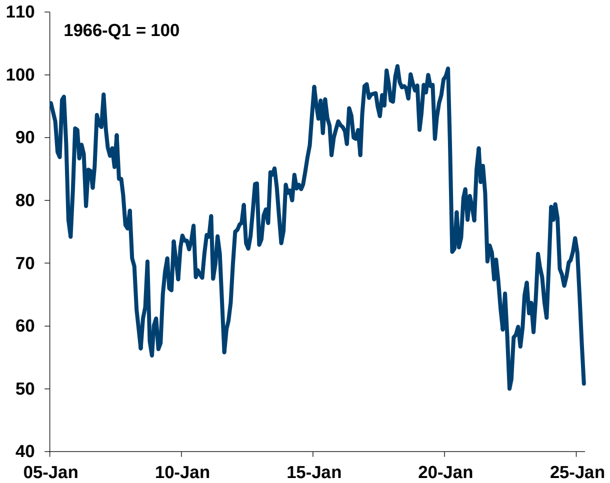
** Not seasonally adjusted*

Source: Bureau of Labor Statistics via Haver Analytics

Inflation Fears Spur a Plunge in Consumer Sentiment

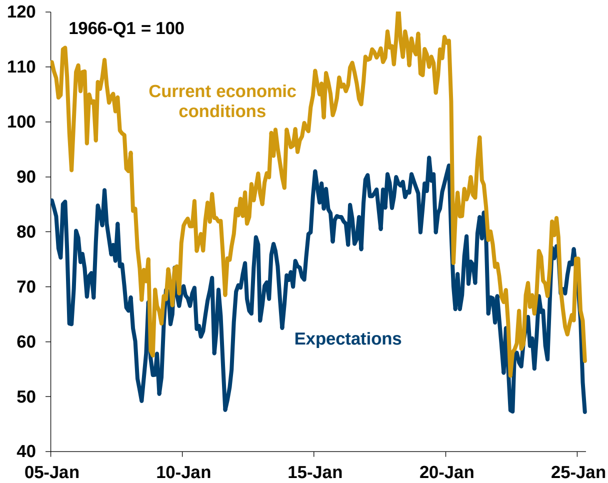
The early April iteration of the University of Michigan Survey of Consumers offered a dim view of the household sector, with individuals increasingly concerned about the Trump administration's tariff policy generating a future spike in inflation and prompting far-reaching economic damage. The headline index fell 6.2 index points (-10.9 percent) in the latest month, with a cumulative drop of 23.2 points (-31.4 percent) in the opening four months of 2025. That shift has left the level of the index only modestly above the low of the current expansion of 50.0 in June 2022 (chart, next page, left). Both the current conditions and expectations components have fallen steadily. The latest reading on current conditions of 56.5 is only modestly above the current cycle low of 53.8 in June 2022, while the expectations component has established a new bottom (47.2 in April versus 47.3 in July 2022; chart, next page, right). The results point to a likely pullback in consumer spending amid tremendous uncertainty and perhaps speak to why inflation eased in certain discretionary areas (see prior story).

Consumer Sentiment



Source: University of Michigan via Haver Analytics

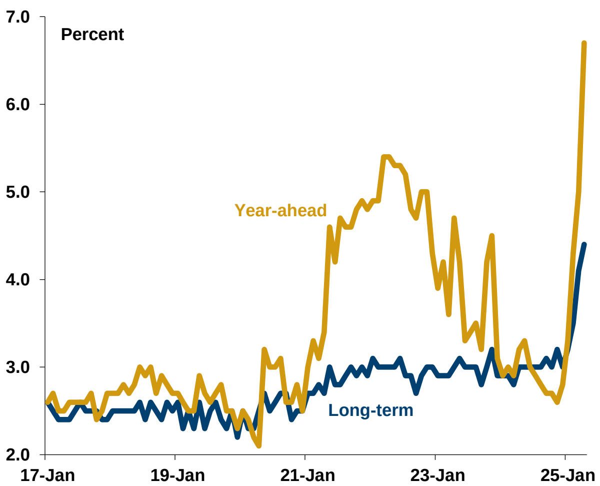
Consumer Sentiment



Source: University of Michigan via Haver Analytics

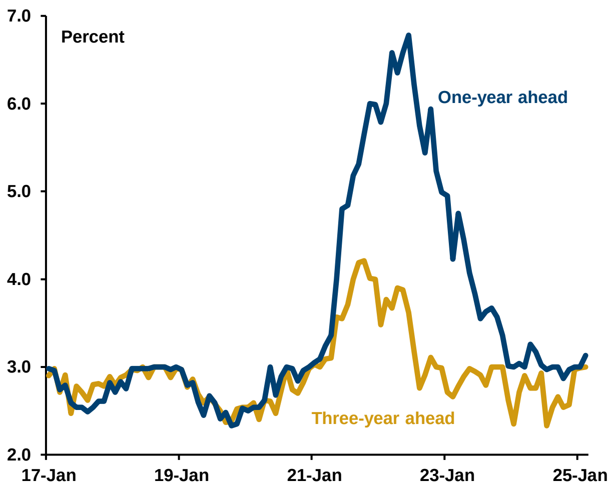
The key consideration for survey respondents is broad-based and unacceptably high future inflation potentially generated by import duties. The year-ahead inflation measure surged 1.7 percentage points to 6.7 percent, the highest since November 1981, and the five-year forward reading jumped to 4.4 percent from 4.1 percent previously (the highest since June 1991). On the point, inflation expectations are a key concern for Fed officials, one that would likely prompt them to postpone further rate cuts for longer even if softening in underlying labor market conditions were to continue apace. That said, we are inclined to interpret results from U. Michigan cautiously. Although lagged by two months, readings from the New York Fed's Survey of Consumer Expectations are far less worrying. Median one-year-ahead inflation expectations are at 3.13 percent with three and five-year ahead observations at 3.00 percent and 2.98 percent (not shown in chart), respectively (and data for March will be released on Monday, April 14). Moreover, 10-year and five-year, five-year-forward breakeven rates implied by Treasury Inflation-Protected Securities suggested average inflation over the next 10 years below 2.25 percent per year. Fed Chair Powell and colleagues have referred to these alternate measures and noted that they imply that longer-term inflation expectations remain anchored. Thus, inflation expectations remain a concern, as they inform the future path of inflation and also may have knock-on effects for consumption patterns, but we do advise taking a broader view beyond just the University of Michigan series.

Consumer Inflation Expectations



Source: University of Michigan via Haver Analytics

Consumer Inflation Expectations



** Note that data is only available through February 2025 (March data to be released on April 14)*

Source: Survey of Consumer Expectations, Federal Reserve Bank of New York via Haver Analytics

Note to readers:

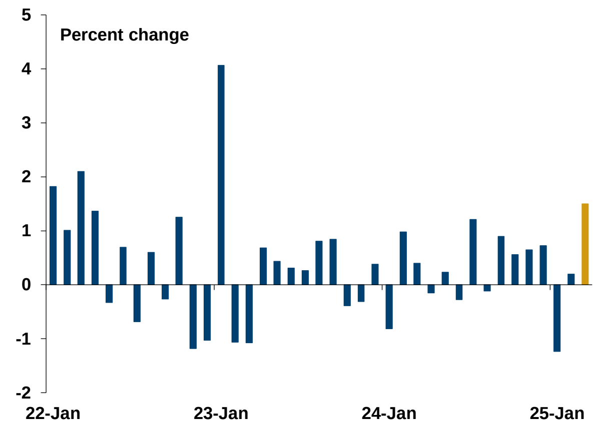
The next U.S. economic comment will be published on May 2, 2025.

The Week Ahead

Retail Sales (March) (Wednesday)
Forecast: +1.5% Total, +0.3% Ex. Autos, +0.4% Ex. Autos and Gas

A jump in new vehicle sales (likely in relation to individuals attempting to front run tariffs) could boost the motor vehicle category after a decline of 0.4 percent in February, which suggests a firm reading on headline retail sales. In contrast, a decline in prices at the pump could exert downward pressure on sales at gasoline stations, raising the possibility of a second consecutive soft reading after a decline of 1.0 percent in February. Sales excluding autos could increase, although recent weakness on sentiment surveys raises the prospect of reserved spending in discretionary areas in response to an uncertain economic outlook.

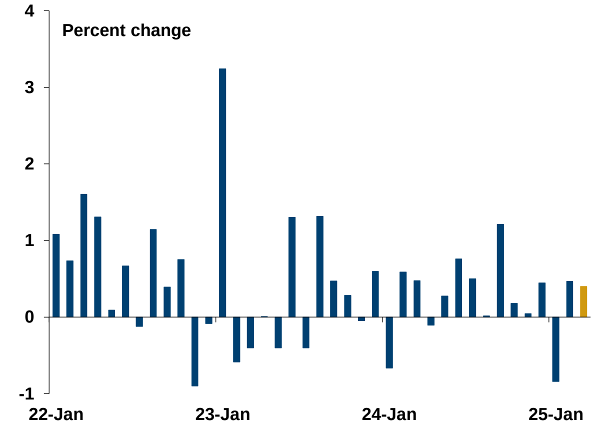
Retail Sales*



* The gold bar is a forecast for March 2025.

Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

Retail Sales Ex. Autos & Gas*



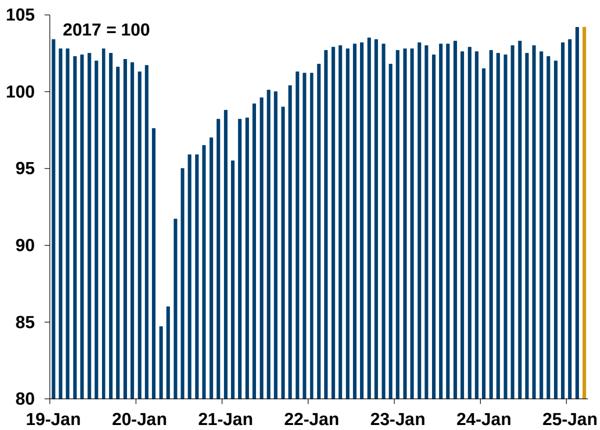
* The gold bar is a forecast for March 2025.

Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

Industrial Production (March) (Wednesday)
Forecast: 0.0% Total, +0.2% Manufacturing, 78.0% Cap-U

Pickups in factory employment and worktimes suggest an advance in the manufacturing component of industrial production in March, although the projected change would do little to alter the prevailing unimpressive trend. Mining activity, in contrast, could should little change – a view suggested by a miniscule shift in rotary rig counts in operation. Warmer-than-average temperatures suggest below-average home heating usage, raising the possibility of a drop in utility output for the second month in a row after a surge in January. Keep in mind, however, that this component swings widely from month to month (-2.5 to +6.1 percent in the past three months), with changes often reflecting variation in weather rather than economic fundamentals.

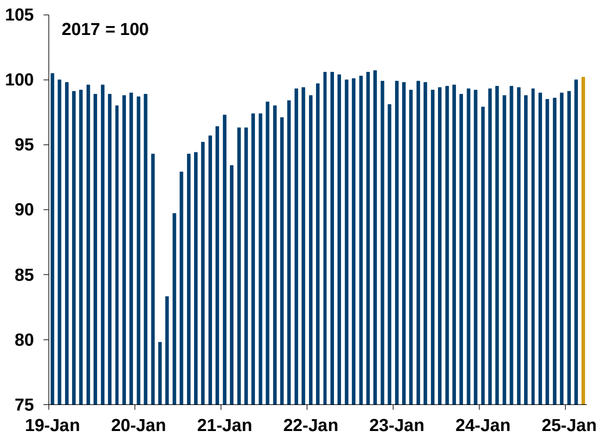
Industrial Production: Headline*



* The gold bar is a forecast for March 2025.

Sources: Federal Reserve Board via Haver Analytics; Daiwa Capital Markets America

Industrial Production: Manufacturing*



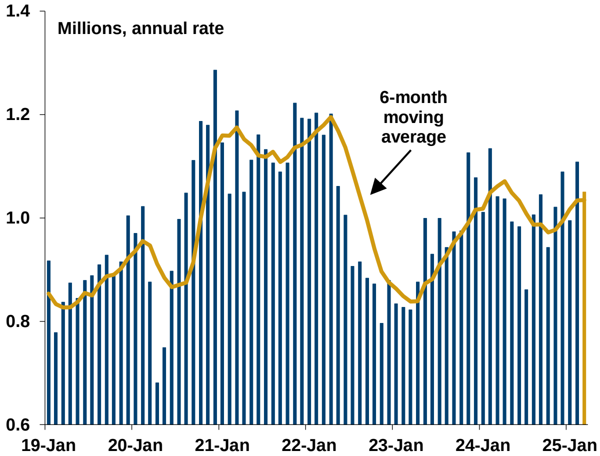
* The gold bar is a forecast for March 2025.

Sources: Federal Reserve Board via Haver Analytics; Daiwa Capital Markets America

Housing Starts (March) (Thursday)
Forecast: 1.400 Million (-6.7%)

Elevated inventories of unsold new homes suggest that builders will be vigilant in starting new single-family housing projects in March. In that regard, given the recent pattern of permit issuance, which includes declines in the past two months, a reading closer to the trailing six-month average of 1.017 million units, annual rate, appears in line after the 11.4 percent jump to 1.108 million in February. Multi-family starts could also dip, evidenced by declines in permit issuance in five of the past six months. That said, the anticipated shift will likely leave initiations within the recent range (0.284 to 0.437 million units in the past six months).

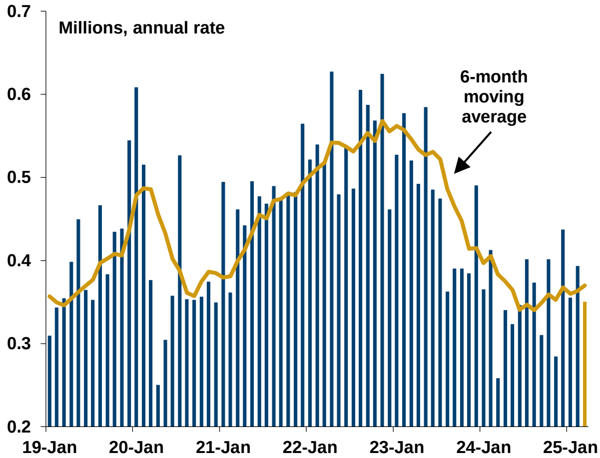
Single-Family Housing Starts*



** The gold bar is a forecast for March 2025.*

Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

Multi-Family Housing Starts*



** The gold bar is a forecast for March 2025.*

Sources: U.S. Census Bureau via Haver Analytics; Daiwa Capital Markets America

Economic Indicators

April/May 2025

Monday	Tuesday	Wednesday	Thursday	Friday
7	8	9	10	11
CONSUMER CREDIT Dec -$110.0 billion Jan $8.9 billion Feb- -$0.8 billion	**NFIB SMALL BUSINESS OPTIMISM INDEX** Jan 102.8 Feb 100.7 Mar 97.4	**WHOLESALE TRADE** Inventories / Sales Dec -0.7% 1.4% Jan 0.8% -0.9% Feb 0.3% 2.4% **FOMC MINUTES**	**UNEMPLOYMENT CLAIMS** Initial / Continuing (millions) Mar 15 0.225 1.847 Mar 22 0.225 1.893 Mar 29 0.219 1.850 Apr 5 0.223 N/A **CPI** Total / Core Jan 0.5% 0.4% Feb 0.2% 0.2% Mar -0.1% 0.1% **FEDERAL BUDGET** FY2025 / FY2024 Jan -$128.6B -$21.9B Feb -$307.0B -$296.3B Mar -$160.5B -$236.6B	**PPI** Final Demand / Ex. Food & Energy Jan 0.6% 0.5% Feb 0.1% 0.1% Mar -0.4% -0.1% **CONSUMER SENTIMENT** Feb 64.7 Mar 57.0 Apr 50.8
14	15	16	17	18
	EMPIRE MFG (8:30) Feb 5.7 Mar -20.0 Apr -- **IMPORT/EXPORT PRICES (8:30)** Non-Petrol Imports / Nonagri. Exports Jan 0.1% 1.5% Feb 0.4% 0.1% Mar -- --	**RETAIL SALES (8:30)** Total / Ex.Autos Jan -1.2% -0.6% Feb 0.2% 0.3% **Mar 1.5% 0.3%** **IP & CAP-U (9:15)** IP / Cap.Util. Jan 0.3% 77.7% Feb 0.7% 78.2% **Mar 0.0% 78.0%** **NAHB HOUSING INDEX (10:00)** Feb 42 Mar 39 Apr -- **BUSINESS INVENTORIES (10:00)** Inventories / Sales Dec -0.3% 1.0% Jan 0.3% -0.7% **Feb 0.2% 1.2%** **TIC FLOWS (4:00)** Long-Term / Total Dec $75.0B $103.2B Jan -$45.2B -$48.8B Feb -- --	**UNEMP. CLAIMS (8:30)** **HOUSING STARTS (8:30)** Jan 1.350 million Feb 1.501 million **Mar 1.400 million** **PHILADELPHIA FED MFG BUSINESS OUTLOOK (8:30)** Feb 18.1 Mar 12.5 Apr --	***GOOD FRIDAY***
21	22	23	24	25
LEADING INDICATORS		**NEW HOME SALES** **BEIGE BOOK**	**UNEMP. CLAIMS** **DURABLE GOODS ORDERS** **CHICAGO FED NATIONAL ACTIVITY INDEX** **EXISTING HOME SALES**	**REVISED CONSUMER SENTIMENT**
28	29	30	1	2
	INTERNATIONAL TRADE IN GOODS **ADVANCE INVENTORIES** **FHFA HOME PRICE INDEX** **S&P CORELOGIC CASE-SHILLER 20-CITY HOME PRICE INDEX** **CONFERENCE BOARD CONSUMER CONFIDENCE** **JOLTS DATA**	**ADP EMPLOYMENT** **Q1 GDP** **EMPLOYMENT COST INDEX** **MNI CHICAGO BUSINESS BAROMETER** **PERSONAL INCOME, CONSUMPTION, AND CORE PRICE INDEX** **PENDING HOME SALES**	**UNEMP. CLAIMS** **ISM MFG. INDEX** **CONSTRUCTION** **VEHICLE SALES**	**EMPLOYMENT REPORT** **FACTORY ORDERS**

Forecasts in bold.

Treasury Financing

April/May 2025

Monday	Tuesday	Wednesday	Thursday	Friday
7	8	9	10	11
AUCTION RESULTS: Rate / Cover 13-week bills 4.175% 2.82 26-week bills 4.000% 2.79 14-day CMBs 4.300% 2.65	**AUCTION RESULTS:** Rate / Cover 6-week bills 4.265% 2.83 3-yr notes 3.784% 2.47 **ANNOUNCE:** $60 billion 17-week bills for auction on Apr 9 $85 billion 4-week bills for auction on Apr 10 $75 billion 8-week bills for auction on Apr 10 **SETTLE:** $60 billion 17-week bills $80 billion 4-week bills $75 billion 8-week bills $50 billion 14-day CMBs	**AUCTION RESULTS:** Rate / Cover 17-week bills 4.250% 2.71 10-yr notes 4.435% 2.67	**AUCTION RESULTS:** Rate / Cover 4-week bills 4.245% 2.95 8-week bills 4.235% 3.10 30-yr bonds 4.813% 2.43 **ANNOUNCE:** $144 billion 13-,26-week bills for auction on Apr 14 $70 billion 6-week bills for auction on Apr 15 $48 billion 52-week bills for auction on Apr 15 $13 billion 20-year bonds for auction on Apr 16 $25 billion 5-year TIPS for auction on Apr 17	**SETTLE:** $144 billion 13-,26-week bills $70 billion 6-week bills
14	15	16	17	18
AUCTION: $144 billion 13-,26-week bills	**AUCTION:** $70 billion 6-week bills $48 billion 52-week bills **ANNOUNCE:** $60 billion* 17-week bills for auction on Apr 16 $85 billion* 4-week bills for auction on Apr 17 $75 billion* 8-week bills for auction on Apr 17 **SETTLE:** $60 billion 17-week bills $85 billion 4-week bills $75 billion 8-week bills $58 billion 3-year notes $39 billion 10-year notes $22 billion 30-year bonds	**AUCTION:** $60 billion* 17-week bills $13 billion 20-year bonds	**AUCTION:** $85 billion* 4-week bills $75 billion* 8-week bills $25 billion 5-year TIPS **ANNOUNCE:** $144 billion* 13-,26-week bills for auction on Apr 21 $70 billion* 6-week bills for auction on Apr 22 $69 billion* 2-year notes for auction on Apr 22 $70 billion* 5-year notes for auction on Apr 23 $44 billion* 7-year notes for auction on Apr 24 $30 billion* 2-year FRNs for auction on Apr 23	***GOOD FRIDAY*** **SETTLE:** $144 billion 13-,26-week bills $70 billion 6-week bills $48 billion 52-week bills
21	22	23	24	25
AUCTION: $144 billion* 13-,26-week bills	**AUCTION:** $70 billion* 6-week bills $69 billion* 2-year notes **ANNOUNCE:** $60 billion* 17-week bills for auction on Apr 23 $85 billion* 4-week bills for auction on Apr 24 $75 billion* 8-week bills for auction on Apr 24 **SETTLE:** $60 billion* 17-week bills $85 billion* 4-week bills $75 billion* 8-week bills	**AUCTION:** $60 billion* 17-week bills $70 billion* 5-year notes $30 billion* 2-year FRNs	**AUCTION:** $85 billion* 4-week bills $75 billion* 8-week bills $44 billion* 7-year notes **ANNOUNCE:** $144 billion* 13-,26-week bills for auction on Apr 28 $70 billion* 6-week bills for auction on Apr 29 **SETTLE:** $144 billion* 13-,26-week bills $70 billion* 6-week bills	
28	29	30	1	2
AUCTION: $144 billion* 13-,26-week bills	**AUCTION:** $70 billion* 6-week bills **ANNOUNCE:** $60 billion* 17-week bills for auction on Apr 30 $85 billion* 4-week bills for auction on May 1 $75 billion* 8-week bills for auction on May 1 **SETTLE:** $60 billion* 17-week bills $85 billion* 4-week bills $75 billion* 8-week bills	**AUCTION:** $60 billion* 17-week bills **ANNOUNCE:** $58 billion* 3-year notes for auction on May 5 $39 billion* 10-year notes for auction on May 6 $22 billion* 30-year bonds for auction on May 8 **SETTLE:** $13 billion 20-year bonds $25 billion 5-year TIPS $69 billion* 2-year notes $70 billion* 5-year notes $44 billion* 7-year notes $30 billion* 2-year FRNs	**AUCTION:** $85 billion* 4-week bills $75 billion* 8-week bills **ANNOUNCE:** $144 billion* 13-,26-week bills for auction on May 5 $70 billion* 6-week bills for auction on May 6 **SETTLE:** $144 billion* 13-,26-week bills $70 billion* 6-week bills	

**Estimate*