

U.S. Inflation Insight: Jun 2025

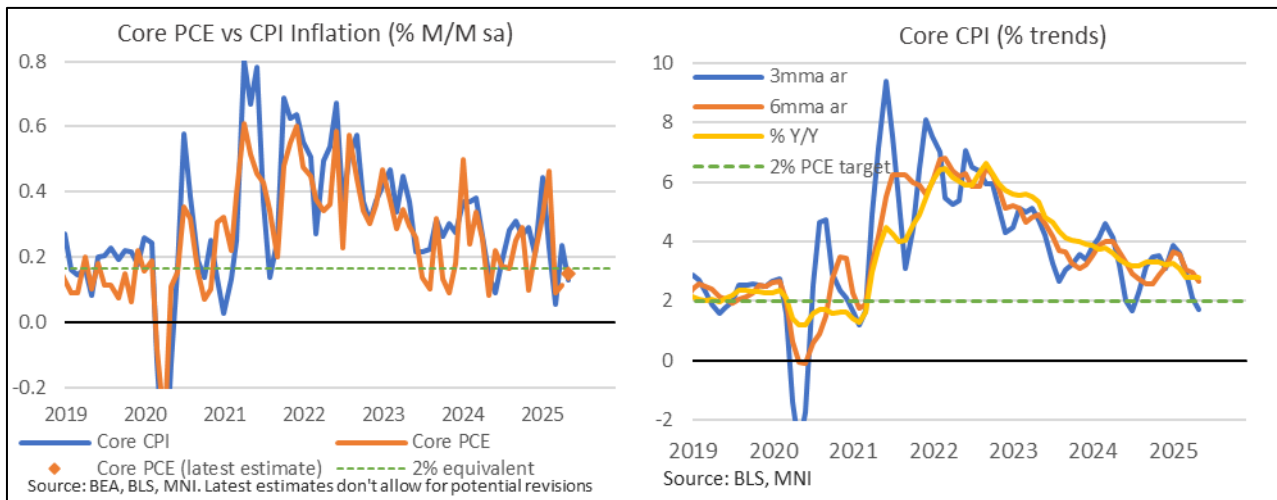
MNI View: Soft Services Offset Tariff Hints

Jun 12, 2025 – By Chris Harrison and Tim Cooper

Surprising Weakness Sees Core PCE On Track For Another Soft Print

- Core CPI inflation was notably softer than expected in May at a seasonally adjusted 0.13% M/M.
- There were downside surprises across the major categories, with core goods and both housing and non-housing services.
- Core goods details did show some increased signs of tariff increases but they were clouded by declines for both new & used vehicles and, more surprisingly, apparel.
- Accordingly, the Y/Y surprised lower at an unchanged 2.8% Y/Y whilst the six-month trend rate eased from 3.0% to 2.65% annualized. That's the first time the six-month rate has been softer than the Y/Y since December, having been as much as 0.4pp higher in Jan and Feb.
- PPI inflation on Thursday then saw largely benign trends even if trade margins bounced back.
- The PCE-relevant components of PPI were largely neutral on the month after a heavy drag in April.
- Core PCE is currently expected to come in at 0.14-0.15% M/M for May.
- It is however, too soon to determine tariff inflation implications, with larger increases expected to filter through in June and July.
- Overall versus pre-CPI, 2025 cumulative Fed cut pricing has deepened 11bp to 53bp –briefly hitting 56bp post-PPI. The next cut is just about priced by September (23+bp, over 90% probability), vs October prior.

CPI Inflation	Apr	May
Core M/M (sa)	0.24%	0.130% (MNI unrounded median 0.27)
Headline M/M (sa)	0.22%	0.081% (MNI unrounded median 0.16)
Core Y/Y	2.78%	2.79 (cons 2.90)
Headline Y/Y	2.31%	2.35% (cons 2.48)



CPI Details

Headline CPI Comes In Soft, But No Thanks To Food And Energy

Headline inflation came in below-expected at 0.08% M/M (0.20% MNI median) – but this was due entirely to the downside miss in core items.

- Food prices rose 0.29% (-0.08% prior, 0.20% median) with energy down 1.0% M/M (-1.2% median, 0.7% prior).
- Within food: away from home rose 0.31%, the 4th consecutive increase above 0.3% (and a potential upside driver of core PCE), while food at home saw a rebound to 0.27% after -0.44% in April.

Summary of Key Categories Vs Analyst Consensus (Red=Higher Than Avg Expectation, Green = Lower)

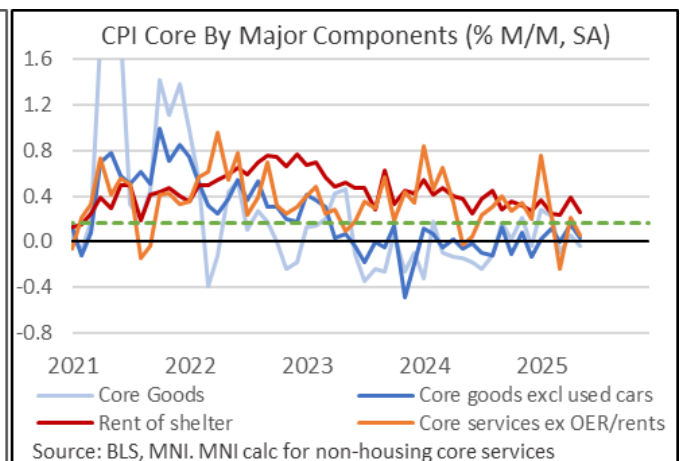
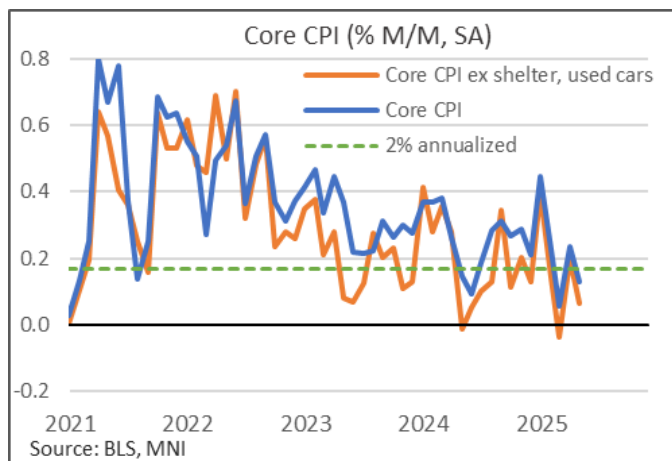
mni	Headline			Core		Supercore	Food	Energy	gasoline
	NSA Index	NSA Y/Y	NSA Y/Y	SA M/M	SA M/M				
May (actual)	321.465	2.35	2.79	0.08	0.13	0.06	0.29	-1.0	-2.6
May (median)	321.732	2.48	2.90	0.20	0.29	0.18	0.20	-1.2	-2.6
May (mean)	321.709	2.47	2.92	0.17	0.27	0.18	0.19	-1.2	-2.6
Bbg consensus	321.732	2.5	2.9	0.2	0.3				
Apr (actual)	320.795	2.31	2.78	0.22	0.27	0.21	-0.08	0.7	-0.1

Widespread Downside Surprises In Core Categories

Driving the lower-than-expected core CPI readings: pretty much every major category, with surprising deflation in core goods prices (-0.54%, led by used and new vehicles and apparel, vs +0.06% in April), with core services also on the soft side at 0.17% (0.29% April) - shelter and airfares the major downside surprises. See table:

Summary of Key Core Categories Vs Analyst Consensus (Red=Higher Than Avg Expectation, Green = Lower)

mni	Core SA M/M	Supercore Core goods			Core services						
		M/M	M/M	used cars M/M	apparel M/M	M/M	OER M/M	rents M/M	lodging M/M	airfares M/M	auto ins. M/M
May (actual)	0.130	0.06	-0.04	-0.54	-0.42	0.17	0.27	0.21	-0.1	-2.7	0.7
May (median)	0.29	0.18	0.20	-0.40	0.26	0.28	0.33	0.31	0.0	-1.0	0.6
May (mean)	0.27	0.18	0.25	-0.08	0.38	0.27	0.33	0.31	-0.1	-1.8	0.6
Bbg consensus	0.3										
Apr (actual)	0.27	0.21	0.06	-0.53	-0.20	0.29	0.36	0.34	-0.1	-2.8	0.6



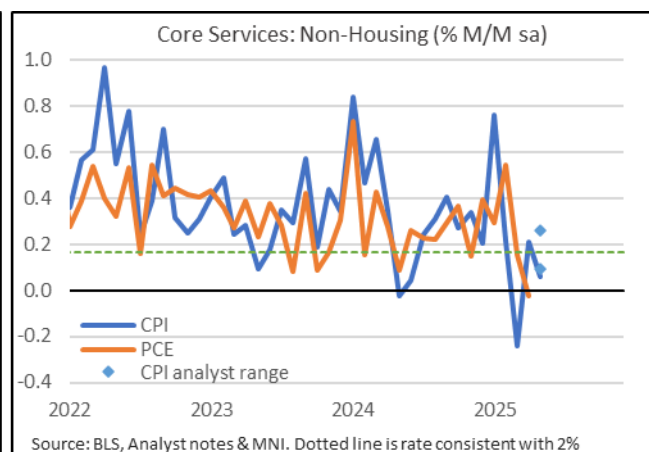
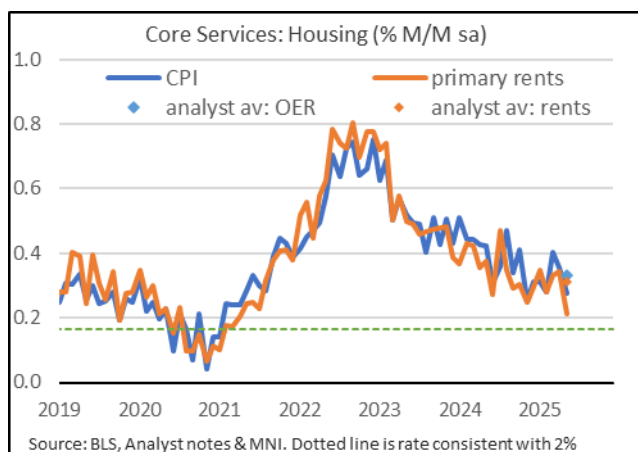
CPI Services Surprise Softer For Both Rents and Supercore

Supercore below all six estimates seen beforehand:

- Core services excl OER & primary rents ('supercore'): 0.061% M/M after 0.209%. Latest 3mth av of 0.01%
- Core services excl all shelter: 0.056% M/M after 0.151%. Latest 3mth av of 0.046%
- Limited analyst estimates for ex OER & rents had averaged 0.18% M/M, ranging from 0.09 to 0.26

Rental inflation also below any analyst estimate we'd seen, especially for primary rents.

- OER: 0.27 vs an average analyst estimate of 0.33% (range 0.28-0.36) in May after 0.36%
- Primary rents: 0.21 vs an average estimate of 0.31% (range 0.29-0.32) in May after 0.34%
- The weighted average of the two, 0.26% M/M, fell back to below the 0.29% averaged in Nov-Feb before accelerating to 0.39% in March and 0.35% in April. It averaged 0.28% M/M in 2019.



Vehicles, Medical Services, Housing Drag On Core; Airfares Neutral

The 0.11pp pullback in core CPI in May (0.13% M/M) versus April (0.24%) was due to diminished price pressure contributions from both core services and core goods inflation, as detailed in the table below.

- Core services inflation's retreat to 0.17% M/M (0.29% prior) shaved the contribution to core CPI by 0.09pp to 0.13pp in May vs April. Housing (-0.04pp), medical services (-0.03pp) were responsible for the majority of the relative pullback. Despite a decent drop in airfares (-2.7% M/M), that was basically the same as the prior (-2.8%) rate thus only meant a flat relative contribution to CPI vs April (-0.03pp drag in both months) – the same can be said for auto insurance's upward contribution (0.7% M/M after 0.6% meant a continued 0.02pp contribution).
- The surprise pullback in core goods prices (-0.04% after +0.06% prior) was driven largely by vehicles: both used and new subtracted around 0.2pp from core CPI, with all other goods contributing around 0.2pp.

US: Contributions to % M/M Core CPI

	Apr	May	chg
Core CPI	0.24	0.13	-0.11
core goods	0.02	-0.01	-0.02
used cars	-0.02	-0.02	0.00
new cars	0.00	-0.02	-0.02
other goods	0.03	0.02	-0.01
core services	0.22	0.13	-0.09
housing	0.15	0.11	-0.04
OER	0.12	0.09	-0.03
primary rents	0.03	0.02	-0.01
lodging	0.00	0.00	0.00
medical serv	0.04	0.01	-0.03
car insurance	0.02	0.02	0.00
airfares	-0.03	-0.03	0.00
other services	0.04	0.01	-0.02

Source: Bloomberg Finance L.P., BLS, MNI.

Figures don't always add exactly due to rounding

Signs Of Tariff Impacts Within Core Goods CPI

- Core goods CPI inflation underwhelmed in May, at -0.04% M/M (we'd seen analyst estimates of 0.20% median/0.25% mean) after 0.06% M/M in April. Core goods ex used vehicles meanwhile saw 0.03% M/M after 0.15% at what had been the strongest since Mar 2023.
- There are some signs of tariff impacts on specific goods items within the details but they were offset by weak vehicle prices (used vehicles -0.54%, new vehicles -0.29%), apparel (-0.42% M/M) and furniture & bedding (-0.8% M/M, NSA) to name a few of the larger categories.

% M/M changes (some on a NSA basis):

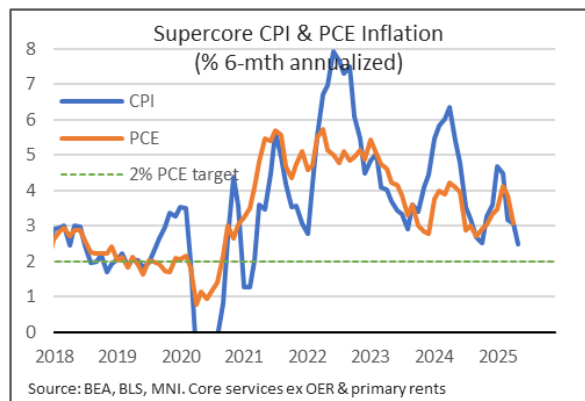
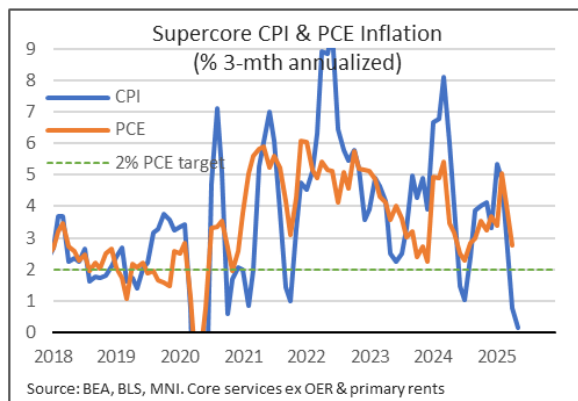
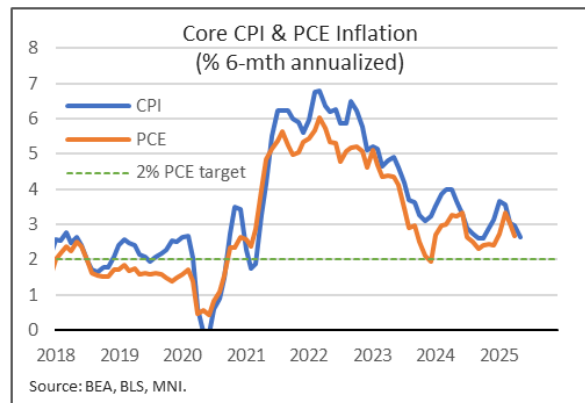
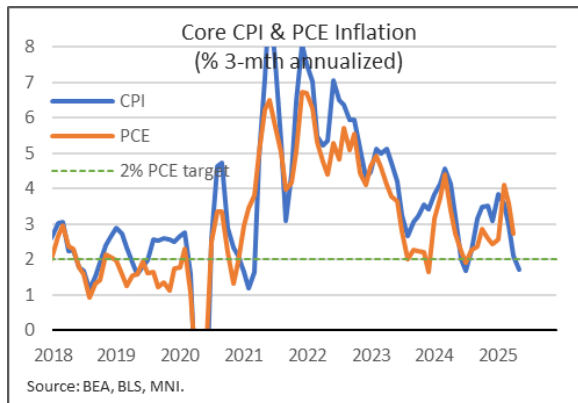
- Major household appliances: 4.3% (most since Aug 2020)
- Audio equipment: 1.63% (NSA, after a booming 8.8% in April was the highest since series started in 2009)
- Vehicle Accessories & parts: 1.42% (NSA, after 2.17% in April was highest since Nov 2023)
- Games, toys & hobbies: 1.35% (most since Apr 2021)
- Tools, hardware & supplies: 1.12% (after 1.16% in April had been the fastest since Nov 2024)
- Medical equipment & supplies: 0.94% (NSA, highest since Jun 2024)
- Tires: 0.84% (NSA, most since Sep 2024)
- Medicinal drugs: 0.54% (NSA, most since Jan 2025)

Latest Core CPI Trends Soften, Awaiting PPI Details

The below run rates highlight the sharp most recent cooling in core CPI trends, albeit with relatively more measured moderation in six-month run rates.

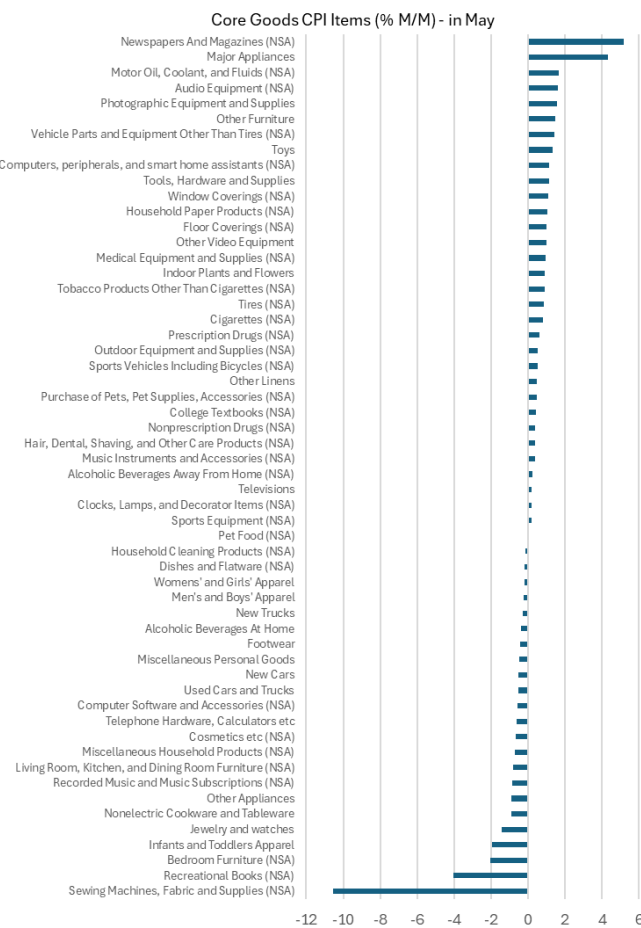
Core CPI (SA)	Core Services Non-Housing (SA)
% M/M: 0.13 in May'25 after 0.237 in Apr'25	% M/M: 0.061 in May'25 after 0.209 in Apr'25
% 3mth ar: 1.7 in May'25 after 2.1 in Apr'25	% 3mth ar: 0.1 in May'25 after 0.8 in Apr'25
% 6mth ar: 2.7 in May'25 after 3 in Apr'25	% 6mth ar: 2.5 in May'25 after 3.1 in Apr'25

Source: Bloomberg Finance L.P., MNI

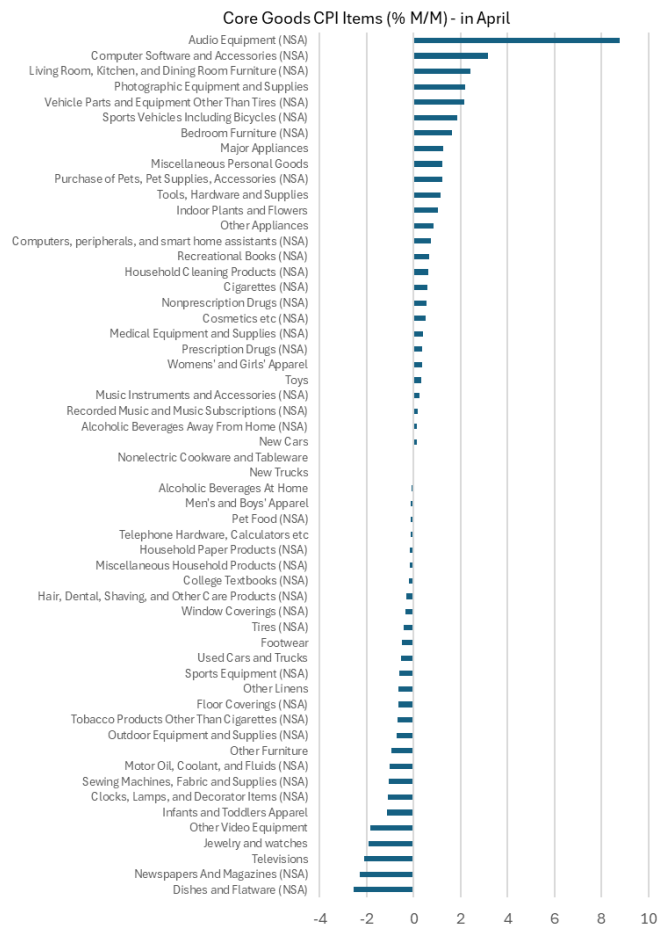


Deeper Dive On Core Goods Details Shows Growing Inflation Impact

- Looking across a detailed selection of CPI core goods items, we estimate a median increase of 0.29% M/M in May after -0.01% M/M in April.
- It points to growing impact from tariffs, even if weakness in larger categories such as new & used vehicles and apparel weighed on overall core goods inflation as noted earlier (-0.4% M/M vs median analyst estimates of 0.20% after 0.06% M/M in April), or core goods ex used vehicles at 0.03% M/M after 0.15%.
- You can see from the charts below just how many of these series aren't seasonally adjusted (per today's BLS release pdf). Whilst that suggests some caution is needed, we note that more broadly, core CPI ex used vehicles saw a non-seasonally adjusted -0.03% M/M after 0.07%, with a May decline the norm in pre-pandemic years.



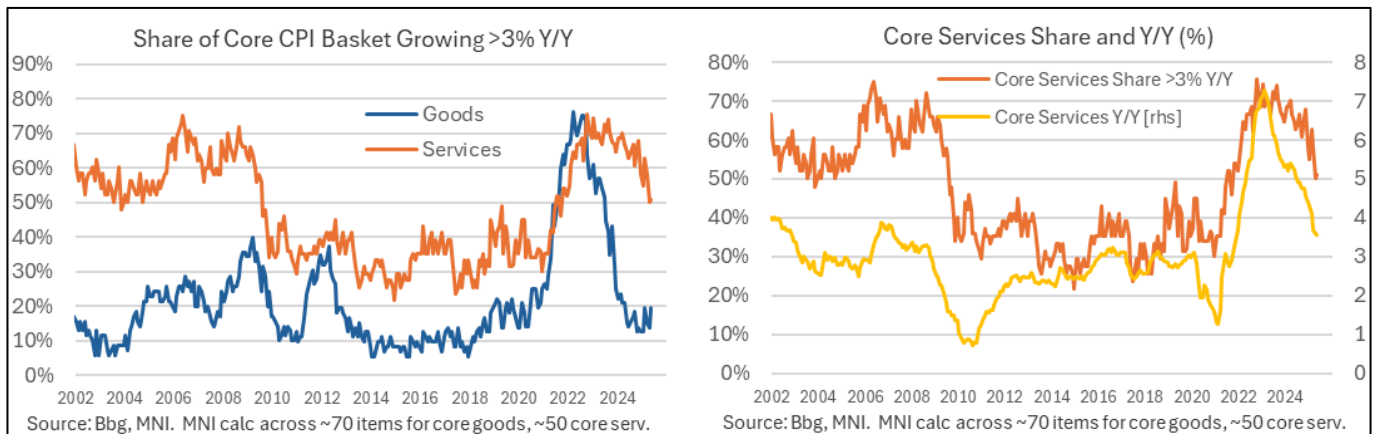
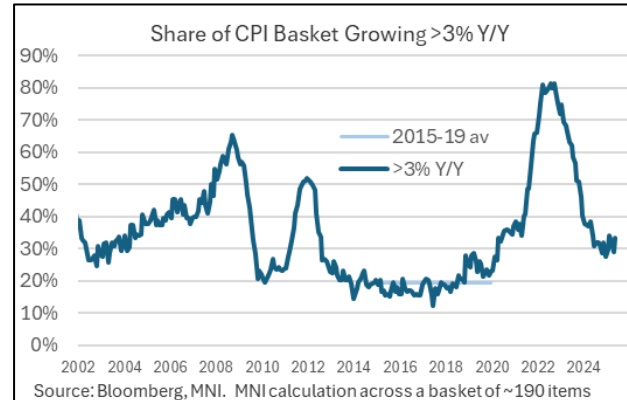
Source: BLS, MNI



Source: BLS, MNI

CPI Dispersion Metrics Point To Only Mild Uptick For Core Goods

- Taking a step back, dispersion metrics of CPI inflation saw a mild uptick with 33% of ~190 items in the overall basket growing in excess of 3% Y/Y vs 29% in April.
- It's the highest since February and before that May 2024, with the share having bottomed out at 28% in December. For context, it averaged 24% in 2019 or 19% in 2015-19.
- The same analysis for core goods saw the >3% Y/Y share rise from 14% to 19% in May for its highest since Feb and before that Apr 2024. As noted in the details, whilst there were multiple large increases in M/M rates for some specific items, there were also some surprisingly weak readings elsewhere.
- Further, whilst the latest level is above the 12% averaged in 2015-19, it's only back to the 18.5% seen just in 2019, having peaked at 75% in 2022.
- The share of core services items growing >3% Y/Y largely consolidated an impressive recent drop, only rising 1pp to 51% having been at 63% in February. It averaged 38% in 2019 or 34% in 2015-19.

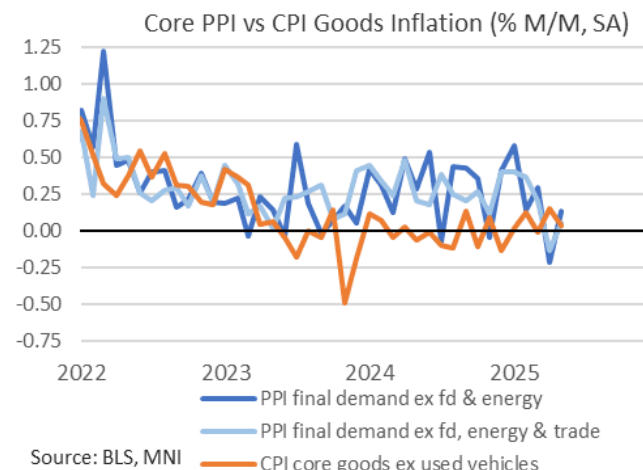
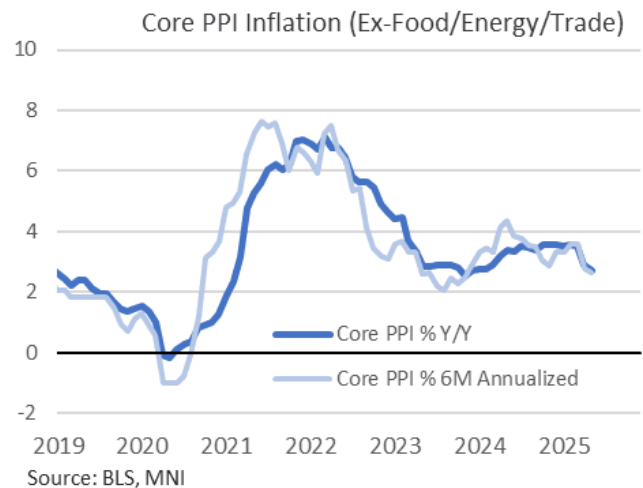


PPI Details

PPI Trends Largely Benign, But Trade Margins Bounce Back

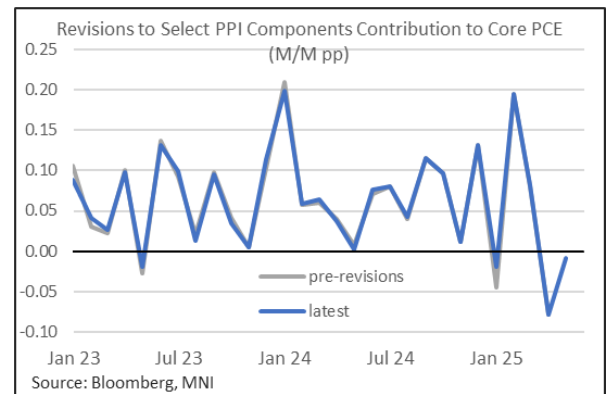
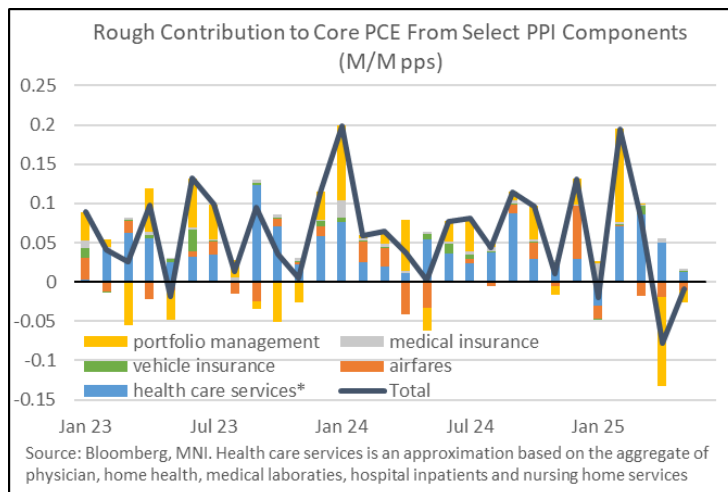
May's Producer Price inflation report provided some relief to concerns that tariff-related factors would significantly push up pipeline pressures in the month. Instead, the broader trend in pipeline pressures appears to be slowing rather than accelerating.

- The headline final demand PPI reading of 0.13% M/M was below the 0.2% expectation, and while that's offset by a decent upward revision to April (-0.24% from -0.47%), the overall index remains below its January level in seasonally adjusted terms, and up just 2.6% Y/Y. Ex-food/energy rose 0.14% (0.3% expected), after an upwardly revised -0.21% (was -0.44%), but the 3M annualized run rate remained below 1% (0.9%) for a second month and the 3.0% Y/Y rate was the slowest since August 2024.
- The main measure of core PPI has effectively ground to a halt: ex-food/energy/trade of 0.05% M/M follows -0.13% in April (slight downward rev from -0.11%), bringing the 3M annualized rate down to 0.5% - the slowest since June 2020. The 6-month annual rate is down to 2.6%, lowest since November 2023, with the Y/Y rate clocking in at 2.7%, lowest (unrounded) since December 2023.
- Some less benign metrics from an inflationary perspective: final demand goods ex-food/energy prices were up 0.2% M/M, continuing a string of 5 months (and 7 of 8) of a 0.2 or 0.3% run rate, looking a little hotter than H2 2024 when readings were in the 0.1- 0.2% range.
- And in final demand services, there was some evidence of margins picking up, though again evidence here was mixed: total final demand services PPI was up 0.1% after -0.4%, with trade services rebounding to 0.4% after -0.5%, but transportation/warehousing (-0.2%) and "other" (0.0%) not contributing.
- As the figures imply, final demand services were a solid contributor to overall PPI - but the overall rise of 0.1% would have been negative were it not for an "imputed" figure of margins for final demand trade services (20% of the PPI basket) which rose 0.44%. That's potentially a sign that wholesalers and retailers tried to increase margins on sales directly to households in the month, with the SA index hitting an all-time high. At the very least there was a rebound in margins after March's 0.5% drop.



PPI Details Point To Broadly Neutral Impact On May Core PCE

- Our simple proxy for the impact of PPI details on core PCE in May came in at -0.01pps after an unrevised -0.088pps in April and +0.08pps in March.
- This looks at a range of health care services, airfares, portfolio mgt & invt advices, vehicle insurance and medical insurance.
- One detail that was particularly in market focus:
 - PPI portfolio management & investment advice: -0.8% M/M in May after an upward revised -6.3% (initial -6.6%).
 - We'd seen some specific estimates ranging roughly between -4.5% and +4.5%
 - It had a weight of 1.8% of core PCE in April, and assuming similar this month would drag only about -0.01pp off core PCE in May after a heavy -0.11p in April.



Core PCE Estimates Downgraded To 0.14-0.15% After CPI/PPI

Analysts have mostly downgraded their expectations for May core PCE inflation (released Jun 27) after this week's CPI and then PPI prints came in below-survey.

- Additionally, key PPI-derived inputs into PCE were mixed but appeared to come in on the weaker side of most analysts' expectations, particularly for portfolio management/investment advice.
- The median analyst estimate for May core PCE is now around 0.14-0.15% M/M, compared with 0.22% going into the May inflation data round.
- That would be a second consecutive uptick (after March's 10-month low 0.09%, April was 0.12%) but would still bring the 3M SA annual rate of core PCE inflation down to 1.4% (slowest since November 2020, from 2.7% prior and 4.1% as recently as February). The 6M rate would remain relatively steady at 2.8% (from 2.7% prior) and the Y/Y SA at 2.6% (2.5% prior).

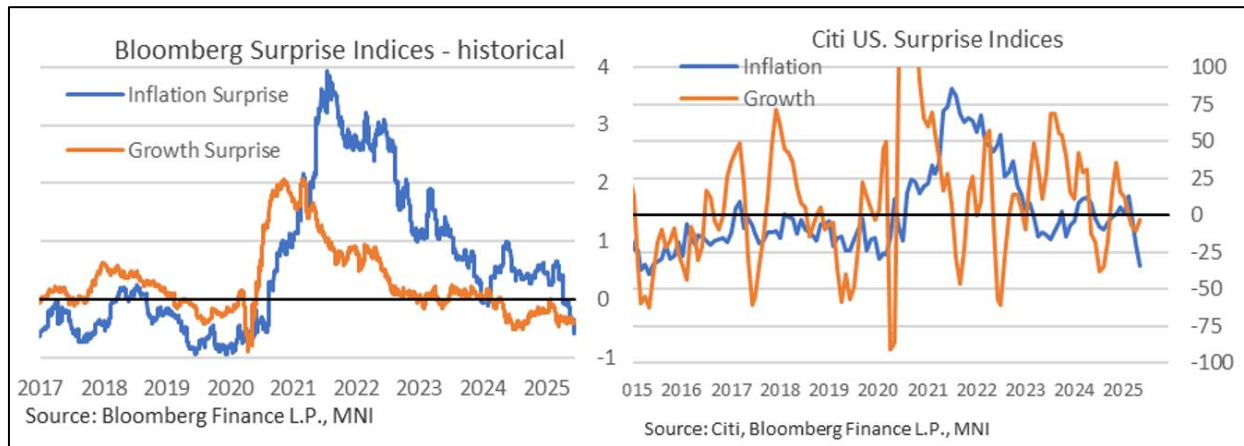
In ascending order of core PCE expectations:

- JPMorgan: 0.12% (0.19% pre-PPI)
- BNP Paribas: 0.13% (0.11% pre-PPI)
- Goldman Sachs: 0.14% (0.18% pre-PPI)
- Barclays: 0.15% (0.22% pre-PPI)
- BofA: 0.16% (0.18-0.24% pre-PPI)
- Nomura: 0.169% (0.348% pre-PPI)
- Morgan Stanley: 0.17%

Surprises Mount ... To The Downside

The softer-than-expected CPI and PPI prints this week have pushed Bloomberg's inflation surprise index to a post-2020 low (see chart). At the same time, there doesn't appear to be a major deterioration in growth surprises.

- We see similar in other surprise indices including Citi's which at its last update in May showed the biggest downside inflation surprises since 2015 (and no discernable downtick in growth surprises) - this is likely to move even lower.
- Clearly, the soft inflation prints of the last 2-3 months have come as a surprise, given expectations that tariffs among other factors could start to see some building upside pressures on prices.
- Most Fed officials appear to believe (per commentary and the latest Beige Book) that tariff-related price increases will eventually be passed through, potentially later this summer, though it will be interesting to see how Chair Powell next week characterizes the latest downside misses in the data, and how if at all it translates into a lower-than-might-be-expected SEP forecast for end-2025 PCE.



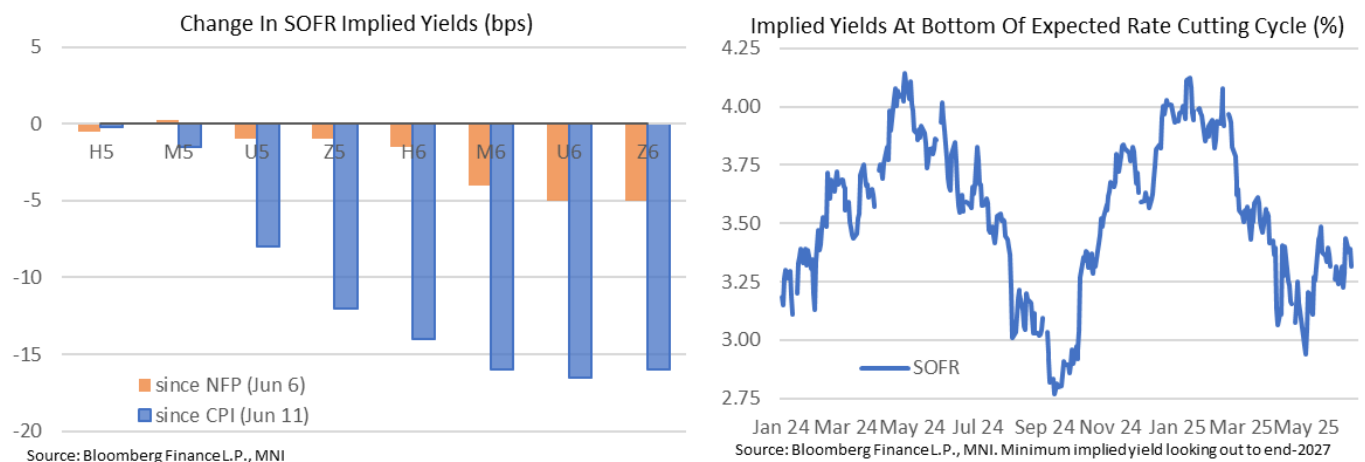
Market Reaction: Back To Two 2025 Cuts With Nonfarm Payrolls Selloff Reversed

- Wednesday's downside CPI surprises saw a significant pullback in rate expectations, adding about 9bp to implied 2025 Fed rate cuts, and dragging the dollar down to (then) the week's lowest levels.
- Thursday's soft PPI data came alongside a weaker than expected jobless claims report which made it difficult to disentangle the exact driver, though either way the dollar weakened to bearish cycle extremes and rates rallied.
- Overall versus pre-CPI, 2025 cumulative cut pricing has deepened 11bp to 53bp – though this briefly hit 56bp post-PPI, which at that point represented a full reversal of the May Employment Report rise.
- While the June FOMC decision is a foregone conclusion as a hold, the next cut is just about priced by September (23+bp, over 90% probability), vs October prior to the May inflation round. A second is now implied by December.

FOMC-dated Fed Funds futures implied rates

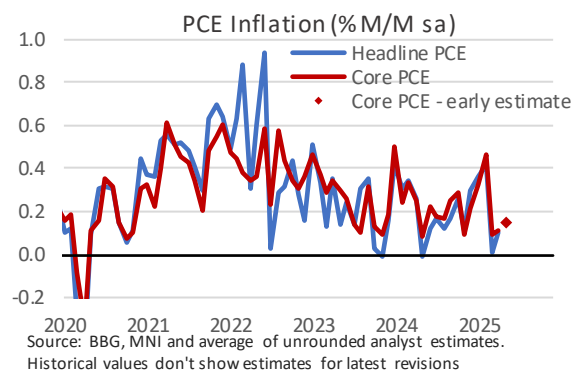
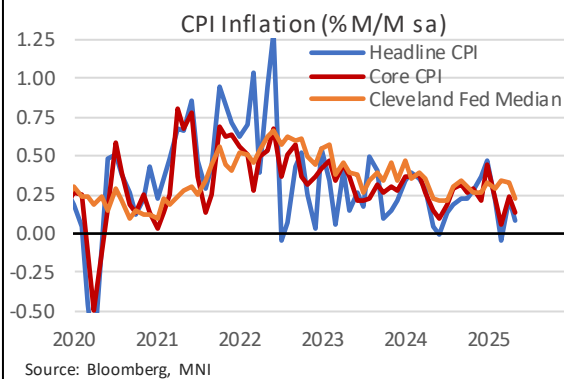
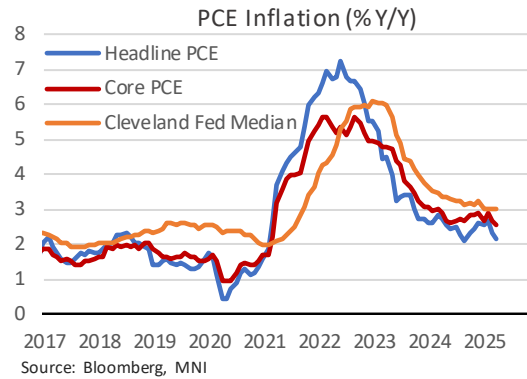
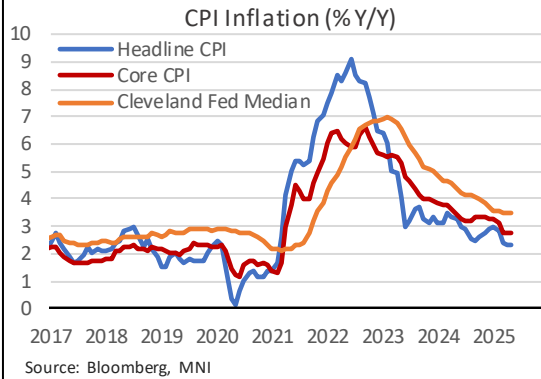
Meeting	Latest			pre PPI (Jun 12)			chg in rate bp	pre CPI (Jun 11)			chg in rate bp
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)		%	step (bp)	cum. (bp)	
Effective	4.33			4.33				4.33			
Jun'25	4.32	-0.6	-0.6	4.33	0	-0.1	-0.5	4.33	0	0	-0.4
Jul'25	4.27	-5.1	-5.7	4.27	-6	-5.7	0.0	4.30	-3	-3	-2.5
Sep'25	4.10	-17.5	-23.2	4.11	-17	-22.4	-0.8	4.17	-13	-16	-7.2
Oct'25	3.97	-13.1	-36.3	3.97	-13	-35.7	-0.6	4.06	-11	-27	-9.0
Dec'25	3.80	-16.8	-53.1	3.81	-17	-52.5	-0.6	3.91	-15	-42	-11.1

Source: Bloomberg Finance L.P., MNI.

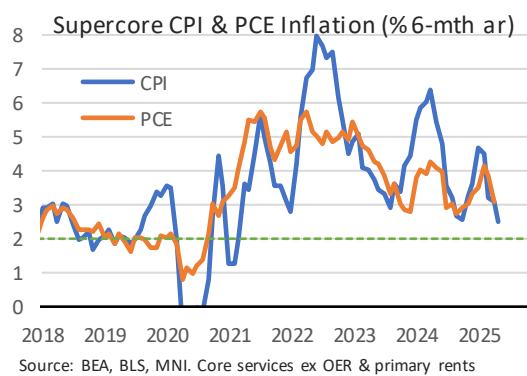
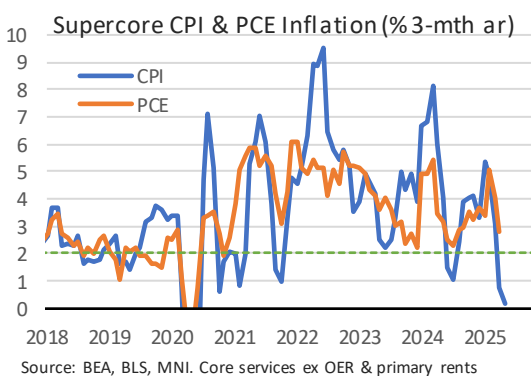
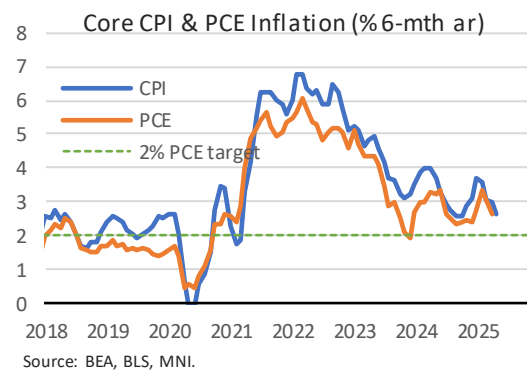
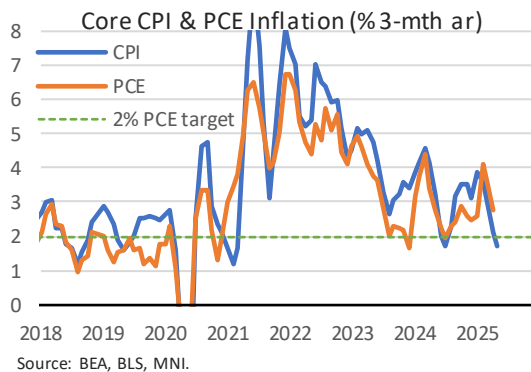


[Inflation chart pack and MNI Policy Team Insights follow overleaf]

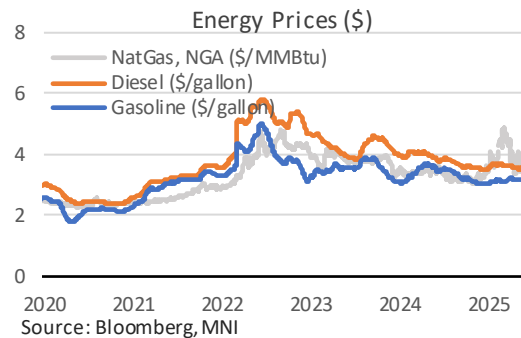
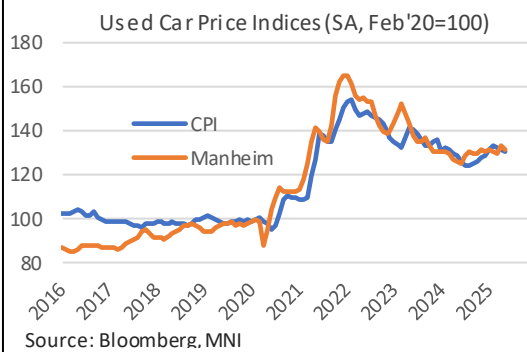
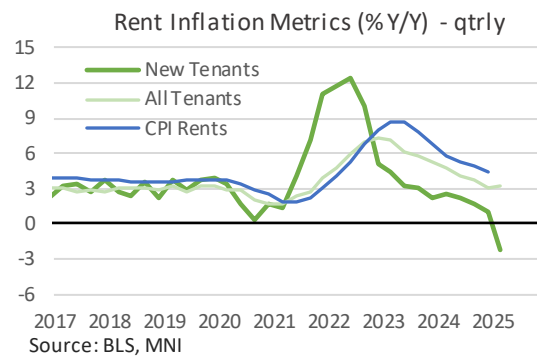
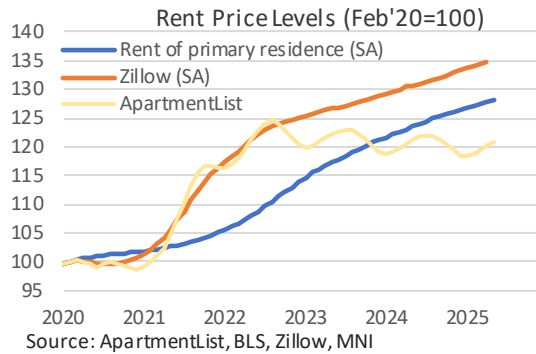
Inflation Overview



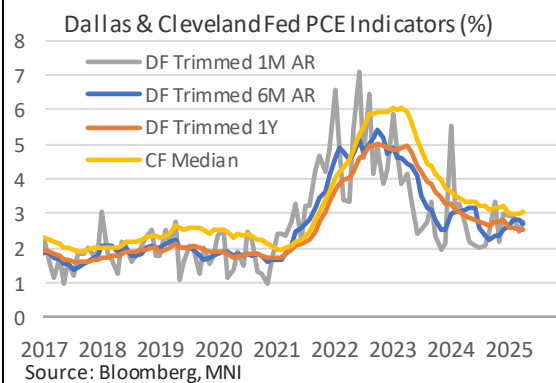
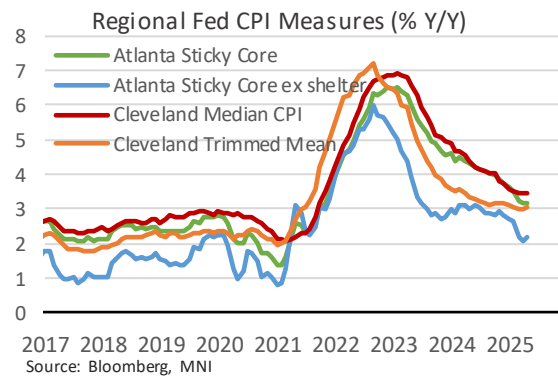
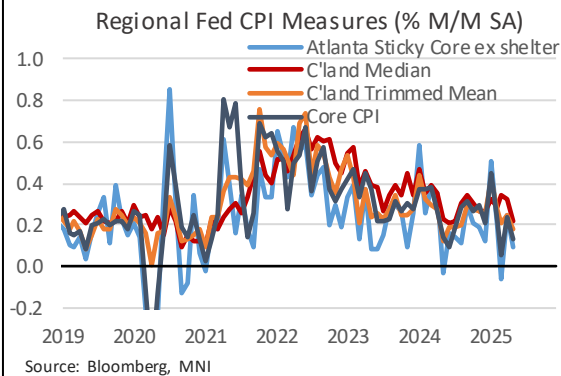
Recent Trends



Specific Categories

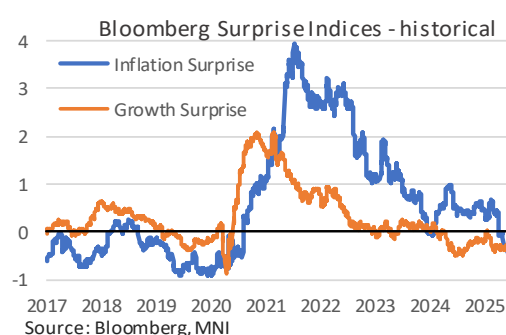
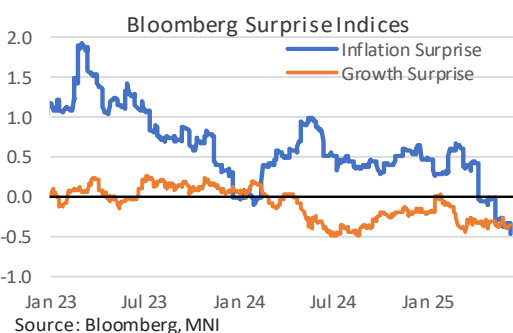
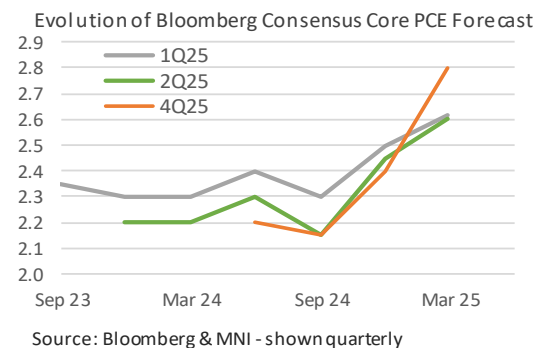
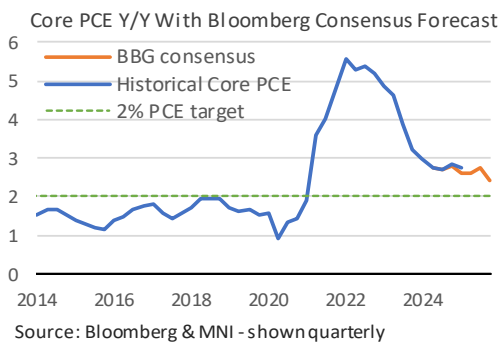
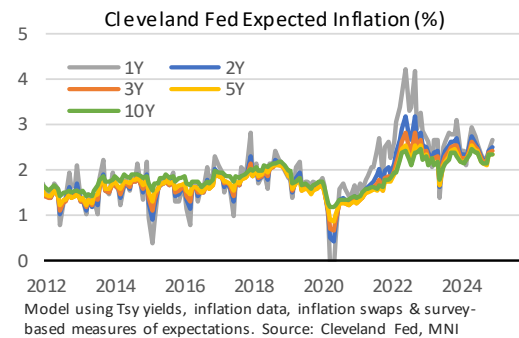
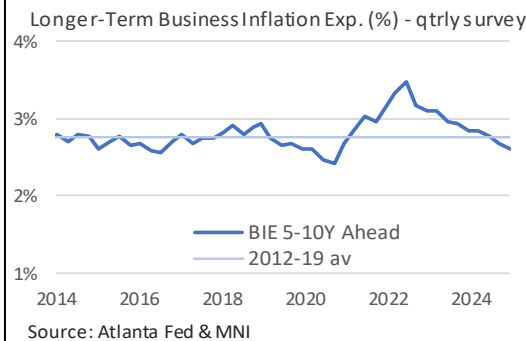
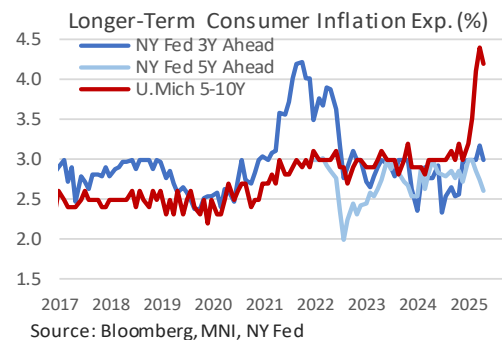
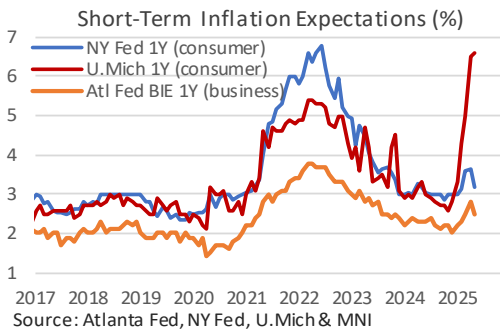
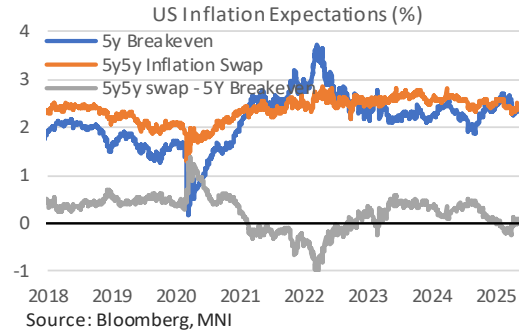
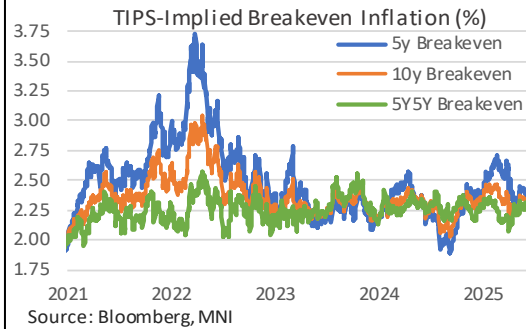


Regional Fed Inflation Indices



(The PCE measures will typically lag CPI by one month in this publication)

Inflation Expectations



MNI Policy Team Insights

MNI INTERVIEW: Inflation Expectations Troubling - Gorodnichenko

By Pedro Nicolaci da Costa (Jun 6, 2025)

LONDON - U.S. inflation expectations are not well anchored despite official assurances to the contrary, elevating the risk that shocks like a trade war could lead to more persistent price pressures and perhaps even warrant interest rate hikes, Berkeley economist and San Francisco Fed adviser Yuriy Gorodnichenko told MNI.

"Policymakers keep saying inflation expectations are anchored. Whether you look at survey evidence, especially for households and firms, it's not clear at all that those expectations are very anchored," he said in the latest episode of The FedSpeak Podcast.

The post-Covid inflation experience has left consumers and businesses especially sensitive to price changes in a way that could quickly reignite inflation, which even before tariffs was still significantly above the Federal Reserve's 2% target, said Gorodnichenko, who presented his research on the issue last month at the Fed Board's 2nd Thomas Laubach Conference.

This sensitivity is evident from just how quickly the expectations of households and businesses have ratcheted higher on fears of higher prices from U.S. tariff policies, he said, pointing to the four percentage-point spike in one-year inflation views from the University of Michigan's Survey of Consumers to 6.5%. "This all happened in a matter of a few months. That's not consistent with anchored inflation expectations." (See MNI INTERVIEW: Inflation Expectations Worrisome For Fed-Umich)

DON'T RULE OUT HIKES

While he sees risks of both slower economic growth and higher prices from tariffs, he thinks inflation could rise significantly in coming months.

"I wouldn't be surprised if inflation goes above 4%, this year," said Gorodnichenko. "If we look at the expectations of households and firms. This suggests to me that we may have an inflation problem regardless of what happens" with the trade war.

That would leave the Fed in an unenviable position if the economy is slowing, and might even force policymakers to put the idea of monetary tightening back on the table.

"At a minimum they should not be doing cuts, they should maintain the current interest rate, and then, depending on circumstances, even raise interest rates to send a signal that they are serious about inflation and they don't want to have another surge of inflation," he said. (See MNI POLICY: Fed Cut Impetus Fades Alongside Recession Fears)

LISTEN TO SURVEYS

Part of the problem for policymakers is identifying the right measure of inflation expectations. The FOMC consensus is that long-term inflation expectations are well-anchored, in part because financial market measures indicate as much.

But Gorodnichenko warned that his research showed consumer and business surveys were better predictors of the post-covid inflation jump than professional forecasters. In addition, he noted that in the Great Inflation of the 1970s bond investors took a long time to internalize the idea that price pressures were not fleeting.

"When you look at the inflation dynamic in the 1970s, you see that the bond market didn't expect inflation to be very persistent in the mid-70s or even towards the end of the 70s," he said. "So it doesn't mean that if professional forecasters don't predict inflation we're not going to have any inflation."

The Fed's Beige Book report this week noted "widespread reports of contacts expecting costs and prices to rise at a faster rate going forward."

Fed officials have outlined two broad scenarios regarding tariff-related price increases, one in which they are simply a one-time hit and a second where price pressures become more embedded.

"It's not a crazy proposition that we should look through one-time shocks," said Gorodnichenko. "But if you have unanchored inflation expectations then this proposition is much less clear."

MNI INTERVIEW: Tariffs To Lift Service Costs Further, ISM Says

By Jean Yung (Jun 4, 2025)

WASHINGTON - Cost increases faced by U.S. service providers picked up in May to levels unseen since November 2022 and the trend has room to run with President Donald Trump raising aluminum and steel tariffs this week, Institute of Supply Management survey chief Steve Miller told MNI.

The ISM prices paid index climbed 3.6pp to 68.7 last month, the highest since pandemic-era supply chain disruptions when CPI stood at 7%, and is likely to rise further amid trade uncertainty, Miller said. The two-month increase in the services price index over April and May is the largest since early 2021, he said.

"It has room to run. If the tariff uncertainty goes out another three months, causing supply constraints, we'll see the same thing that we saw at the beginning of the pandemic," Miller said in an interview Wednesday.

Trump's doubling of aluminum and steel tariffs to 50% will hit utilities and construction Miller said. "Much of what utilities order overseas are capital assets that take a long time to make," he said. Firms are getting hit with higher import duties on orders from a year or two ago, Miller said.

JOB GAINS RETURN

The supply-chain squeeze will worsen the longer uncertainty continues, he said. "We'll be in a real problem if we get into the fall without things getting resolved," he said. (See: MNI INTERVIEW: Trump Has Options To Keep Tariffs -Eissenstat)

Miller reckons the impact on U.S. inflation this time may be more limited as half of purchasing managers surveyed last month told ISM they won't pass through cost increases until they persist for six months.

"What will constrain inflation is the lack of money supply," he said. "We're not sending thousand-dollar checks out to Americans."

Price hikes will also be less than the previous cycle because the employment index returned to expansion territory after two months of contraction, Miller said. That's even as the headline index dipped below 50 and new orders moved into contraction territory for the first time in nearly a year.

MAJORITY OF FIRMS GROWING

The May services PMI fell to 49.9 from a 12-month average of 52.3 and new orders fell 5.9pp to 46.4, but the employment index rose 1.7pp to 50.7.

"There's still confidence that the tariff impacts will be worked out," Miller said. "The commentary didn't talk about massive expansion, but it did talk about replacing attrition as well as staffing to hit both seasonal activity as well as increases in project activity."

Industries representing 57% of U.S. GDP say they're in expansion territory, higher than in April and March. Gains are led by accommodation and food services and entertainment and recreation.

"The 49.9 headline number was primarily driven by reduction of expansion in the two industries rather than significant increase in contractionary

MNI INTERVIEW: Trump Has Options To Keep Tariffs - Eissenstat

By Jean Yung (Jun 3, 2025)

WASHINGTON - President Trump has multiple options to maintain tariffs even if courts ultimately decide that the legal foundation for his April 2 reciprocal tariffs is invalid, and meanwhile the rulings last week are adding to uncertainties facing businesses, Everett Eissenstat, a top White House economic and trade adviser in the first Trump administration, told MNI.

"There are a lot of tariffs in place that are not vulnerable legally that are pretty significant, and there are other statutes the administration can use to put tariffs on," Eissenstat said in an interview.

"Many countries are still going to negotiate, which is wise. So in some ways it changes a lot and in some ways it doesn't change much." (See MNI INTERVIEW: Fed Will Face 'Tough Calls' In H2-Holtz-Eakin)

Whether Trump will launch import duties under authorities other than the International Emergency Economic Powers Act, or IEEPA, while the cases are pending is unclear, Eissenstat said. "If he has confidence he'll win, it might not make sense to use other tools," especially as the tariffs are in effect while the appeals process goes on for several more months, if not longer, he said.

OTHER AUTHORITIES

Trump could begin additional investigations on trading partners under Section 301 of the Trade Act of 1974 to target the top eight largest bilateral deficits, or impose temporary tariffs of up to 15% for a maximum of 150 days to address "large and serious United States balance-of-payments deficits" under Section 122, said Eissenstat, formerly lead negotiator for the U.S. at the G7, G20 and APEC summits.

Section 338 also authorizes Trump to impose duties of up to 50% if a country discriminates against U.S. goods, he added.

"At the end of the day we are talking about what statutory tool he used, not whether he can impose tariffs. He can and there are a lot of other instruments to do that," he said.

"That still brings home some of the fundamentals of what he wants to achieve: reshoring, rebalancing unfair trade practices. Those issues are still going to be on the table."

CHINA RELATIONSHIP 'ROCKY'

For companies, the court cases have made the business environment even more uncertain, Eissenstat said.

"The question now is do we pay tariffs and maybe hope to get them back? There's just no real clarity, and if anything the court cases have made things even more murky."

A contentious past few days, with Beijing and Washington both accusing the other of violating the terms of a 90-day trade truce underscores that the relationship continues to be "rocky," Eissenstat said.

"I had thought the negotiations would continue in earnest," he said. "But there doesn't seem to be any real impetus to provide a settlement on either side any time soon."

MNI INTERVIEW: Fed Will Face 'Tough Calls' In H2 - Holtz-Eakin

By Pedro Nicolaci da Costa (Jun 2, 2025)

LONDON - Federal Reserve officials will face a difficult choice on interest rates later this year as a significant reprieve on tariffs remains unlikely, so inflation will rise at the same time as economic growth falters, former White House economist Douglas Holtz-Eakin told MNI.

Wall Street is too sanguine about the notion that the worst is over on the trade war front simply because U.S. President Donald Trump has temporarily paused some tariffs while facing legal setbacks on others, Holtz-Eakin said in an interview

"The notion that we'll end the year with no tariffs strikes me as naive," he said. "There are other authorities he has, section 232, section 301, that that he's already used could be used more extensively. There are other routes do the kinds of things he wants to do and I would expect that to happen."

"They have the luxury of waiting for another meeting but after that they start having some real tough calls," he said.

NO REPRIEVE

Holtz-Eakin, president of the American Action Forum, said the uncertainty and policy volatility surrounding tariffs had already dented GDP growth to the tune of a full percentage point. The hit could be worse if larger tariffs now on hold are reimposed, he said.

"If we got back to the level of tariffs on Liberation Day, I think the economy deteriorates substantially in the second half, and they cut to save the employment mandate," he said. "They were suspended for 90 days. This president would do it. The courts might stop him."

At the same time, inflation could rise as high as 4-4.5% in coming months, which would put the Fed in a serious bind, he said.

In terms of timing, he sees the jump in inflation happening in the next couple of months while the hit to growth will show up in the third quarter and beyond. Meanwhile, the on-again off-again nature of the policies will make it hard to get a clean read on the data.

"There's no way they'll move preemptively to cut, since the inflation will hit first. And in the second half of this year, I think the Fed earns its money, because it's going to be tough," Holtz-Eakin said. (See MNI POLICY: Fed Cut Impetus Fades Alongside Recession Fears)

"The Fed correctly recognizes that this is not a genuinely inflation event, it's a price level event. But the question is whether the public will appreciate that nuance or not exactly, and we've already seen Michigan-survey-style inflation expectations bounce way up."

FISCAL PRESSURES

Holtz-Eakin, also former director of the Congressional Budget Office, said the recent spike in long-term Treasury yields is related to a deteriorating fiscal outlook that has recently become more salient for global investors.

“The U.S. fiscal trajectory is unsustainable, so that's not news. The Moody's downgrade was important in that the previous downgrades explicitly cited political difficulty in managing our finances as a primary concern,” he said.

“Moody's didn't say a word about that. It just said, you have too much debt, you have too much interest. So that means that the problem is the problem, not the process. That's a significant change. And the reconciliation bill, as it came out of the House, doesn't improve it at all, it makes it worse.”