

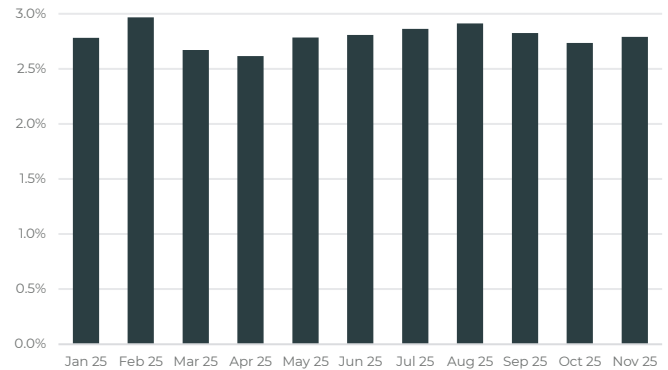
KBC INSIGHTS | INFLATION UPDATE

# Headline Inflation Mask Significant Shifts

Goods and services inflation are taking different paths.

## RANGEBOUND

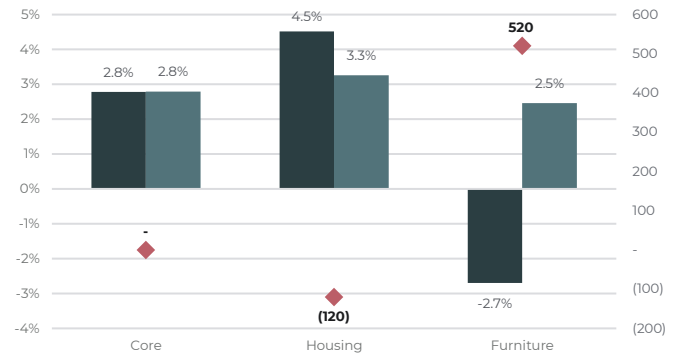
- » Year-over-year (YOY) inflation has been rangebound since the beginning of the year.
- » It started at 2.8%, reached 3% in February, declined to 2.6% in April and now is back at 2.8%.
- » A key question relating to future inflation is if the majority of the price impacts from tariffs have been seen, somewhat more is to come, or the greatest impact remains to be seen.
- » If the impact to date has been lessened due to companies increasing inventories in advance of tariffs, then the full effects may remain to be seen.
- » Alternatively, if companies are able to offset tariff impacts through other means including labor cost savings and productivity gains, possible future impacts may be lessened.
- » If labor savings are the key means to lessen the impact, then job growth will likely be impacted.



■ Core PCE Inflation Rate (YOY)

## GOODS AND SERVICES DIVERGE

- » While YOY inflation was unchanged at 2.8% from January to November, there were significant changes within the index.
- » Within services, YOY housing inflation declined from 4.5% in January to 3.3% in November, a 120-basis point (bps) decline.
- » Conversely, within goods, YOY furniture inflation increased from -2.7% in January to 2.5% in November, a 520-bps increase.
- » The impact of changes on the inflation rate depends on both the change, and each category's weight within the index.
- » While YOY housing inflation only decreased 120-bps from January to November and furniture inflation increased 520-bps during the same period, housing comprised 14% of the index while furniture only comprised 3% of the index.
- » Goods inflation will be dependent on both tariffs and goods demand.
- » Services inflation will be dependent on labor costs and services demand.



■ January (LHS) ■ November (LHS) ◆ Delta (RHS)

All references to inflation are for Core PCE inflation unless otherwise stated

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