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US Wholesale Inflation Registers Largest Drop Since Pandemic

'If you are in the stagflation camp, these data aren't confirming your thesis,' one market expert said.

People shop at a grocery store in New York City on March 12, 2025. Samira Bouaou/The Epoch Times

By Andrew Moran
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Wholesale inflation in April recorded the sharpest drop since the onset of the COVID-19 pandemic, signaling that U.S. tariffs have yet to affect consumers.

Last month, the producer price index (PPI)—a gauge of prices for goods and services paid by businesses early in the supply chain—fell by 0.5 percent, down from the upwardly adjusted zero percent recorded in March.

The consensus forecast suggested a 0.2 percent increase.

According to May 15 data released by the Bureau of Labor Statistics, annual headline PPI inflation slowed sharply to 2.4 percent from 3.4 percent, slightly lower than the market estimate of 2.5 percent.

Core wholesale prices, which omit the volatile energy and food categories and are considered a more accurate inflation predictor, also declined by 0.4 percent in April. This was down from March's upwardly revised 0.4 percent increase and lower than economists' expectations.

Core PPI inflation eased to 3.1 percent from 4 percent year over year, in line with market watchers' projections.

Economists monitor the PPI closely as it can signal pipeline inflation. The Federal Reserve watches producer prices closely as they contribute to the personal consumption expenditure (PCE) price index, the central bank's preferred inflation report.

Later this month, PCE inflation is expected to come in at 2.2 percent, according to the Cleveland Fed's Inflation Nowcasting model estimate.

This comes after the April consumer price index (CPI) revealed softening in cost pressures compared with a year ago.

The annual inflation rate slowed to a lower-than-expected 2.3 percent, the lowest level since February 2021. Core CPI inflation was unchanged at 2.8 percent.

Despite growing fears of stagflation—an economic climate of higher prices, rising unemployment, and slowing growth—these numbers should dissipate worries, according to Jamie Cox, a managing partner for Harris Financial Group.

"If you are in the stagflation camp, these data aren't confirming your thesis. While growth is slowing, disinflation remains intact," Cox said in a note emailed to The Epoch Times.

Inflation Watch

While the latest influx of data suggests that higher inflation has yet to materialize, a chorus of economists says that potential adverse effects of tariffs could begin to show up in the hard data in the second half of 2025.

“Pauses and deals aside, the reality is that tariff rates are higher and some portion of that will stick, meaning that over coming months the data on goods prices will likely tell a more convincing, and consistent, story about the impact on retail-level prices,” Richard Moody, chief economist at Regions Financial Corporation, said in a note.

Other economic observers have said that inflation will likely reaccelerate, although the outcome could be less dire than initially reported.

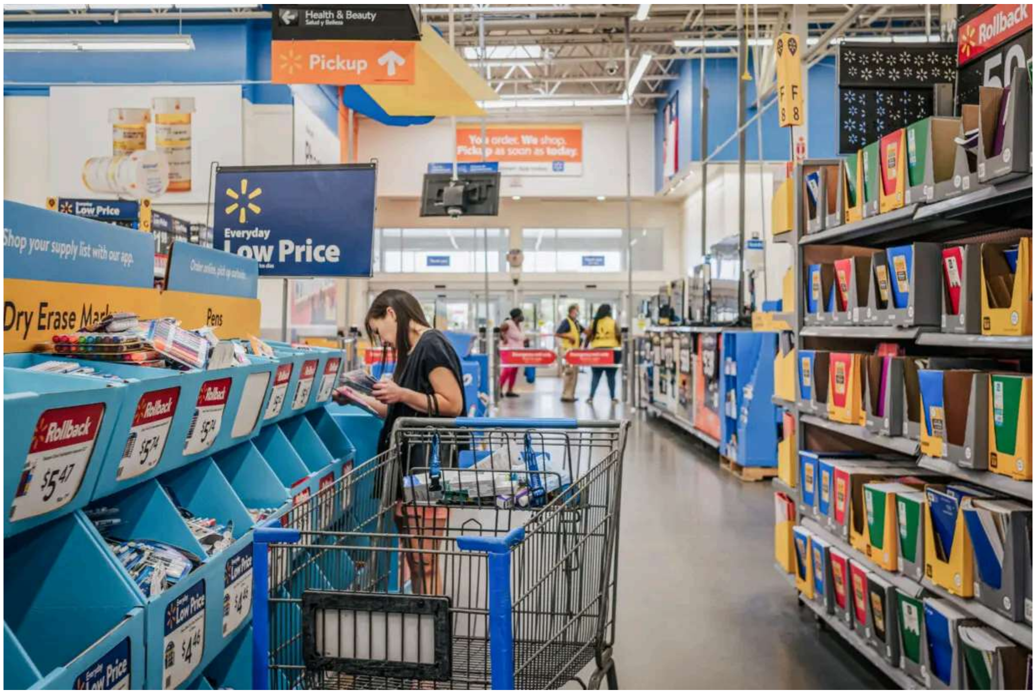
“Inflation looks likely to pick up in the second half of 2025 as businesses pass on the cost of tariffs,” Bill Adams, chief economist at Comerica Bank, said in a note emailed to The Epoch Times.

“But after cuts to the tariff rates applied to most imports, the effect will be smaller than it appeared a few weeks ago.”

Tariff-related price pressures might be more “manageable” than expected for businesses and consumers, Adams said.

BNP Paribas economists recently said that U.S. inflation will start “to rise noticeably” in the third quarter. In an April 28 research note, they said they anticipate that the annual inflation rate would surpass 3 percent and peak at 4 percent in the second quarter of 2026.

Echoing the sentiment of Federal Reserve Chair Jerome Powell, they said tariff-driven price pressures could be temporary.



A customer shops at a Walmart store in Houston on Aug. 4, 2021. Brandon Bell/Getty Images

"It should be transitory, provided that the trade war de-escalates, the Fed does not cut rates prematurely and/or its independence is not called into question," they wrote.

"All of this would allow household inflation expectations to fall from their current high levels and prevent them from becoming self-fulfilling."

A plethora of consumer surveys have highlighted households' growing consternation surrounding a possible inflation revival.

In the University of Michigan's April Consumer Sentiment Index, the one- and five-year inflation outlooks climbed to 6.5 percent and 4.4 percent, respectively.

In addition, the New York Fed's March and April Survey of Consumer Expectations also confirmed households' growing short-term inflation anxieties. The median year-ahead inflation outlook surged to 3.6 percent from 3.1 percent in February, although long-term inflation expectations were stable.

These concerns could be justified based on recent statements from corporate America. Several major companies have said they plan to raise prices in the coming months amid the blowback from tariffs.

Walmart, which reported a drop in first-quarter profits in its latest earnings report, has said it will have to absorb tariff costs.

“We will do our best to keep our prices as low as possible but given the magnitude of the tariffs, even at the reduced levels announced this week, we aren’t able to absorb all the pressure given the reality of narrow retail margins,” Walmart CEO Doug McMillon said in a May 15 earnings call with analysts and shareholders.

Last month, tool maker Stanley Black & Decker said it increased prices by high single digits across U.S. retailers and plans to introduce another round of hikes later this year.

“In light of the current environment, we are accelerating adjustments to our supply chain and exploring all options as we seek to minimize the impact of tariffs on end users while balancing the need to protect our business and our ability to innovate for years to come,” Stanley Black & Decker CEO Donald Allan said in an April 30 earnings call.

“With that in mind, we implemented an initial price increase in April and notified our customers that further price action is required.”

What This Means for the Fed

The wave of positive economic data has prompted investors to push back their interest rate forecasts.

According to the CME FedWatch Tool, the futures market is penciling in the next quarter-point rate cut in September. Over the past several weeks, traders were betting that the Federal Reserve would resume its easing cycle in June or July.

With the higher-than-expected retail sales data in April—sales rose by 0.1 percent, and March numbers were revised higher to 1.7 percent—monetary policymakers will likely sit on the sidelines, according to Jeffrey Roach, chief economist for LPL Financial.

“Steady consumer incomes should support discretionary spending, adding to the likelihood that the Fed can stay on hold as long as growth prospects remain stable,” Roach said in a note emailed to The Epoch Times.

In prepared remarks on May 15, Powell said that long-term interest rates will likely be higher amid policy uncertainty and economic changes.

“Higher real rates may also reflect the possibility that inflation could be more volatile going forward than in the inter-crisis period of the 2010s,” Powell said at the Thomas Laubach Research Conference in Washington.

“We may be entering a period of more frequent, and potentially more persistent, supply shocks—a difficult challenge for the economy and for central banks.”

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Andrew Moran has been writing about business, economics, and finance for more than a decade. He is the author of "The War on Cash."

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