

A low-angle photograph showing the lower legs and feet of several people walking on a paved surface. They are wearing blue jeans and white sneakers. Several colorful shopping bags (red, blue, pink, orange) are hanging from their hands. In the background, a bicycle wheel is visible on the left, and a blurred storefront is on the right.

ECOCHARTS

June 2025

INFLATION TRACKER



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CHART OF THE MONTH: United States: Another way to detect the likely inflationary impact of tariffs

Our chart of the month shows a breakdown of US inflation (measured using BEA personal consumption expenditures deflator) whether it is supply or demand-driven. This breakdown is based on the methodology developed by Adam Hale Shapiro (vice president of the Economic Research Department at the Federal Reserve Bank of San Francisco)¹. The components of the demand-sensitive (supply-sensitive) price index are identified by the positive (negative) correlation between their changes and economic activity.

The latest available data, from April, show that supply-driven inflation (orange curve) is clearly continuing its downward trend since the peak of the inflationary shock in the second quarter of 2022 and stands below its pre-pandemic average. Demand-driven inflation (green curve), on the other hand, has been on an upward trend again since December 2024 and is above its pre-pandemic average.

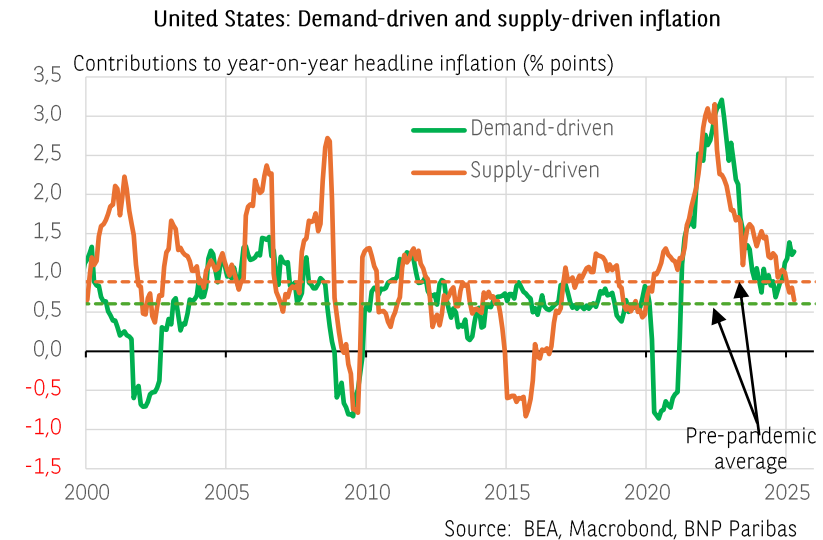
A first lesson to be learned from these developments is that, before President Trump's tariff shock, the continuation of the disinflation process and the return to target were dependent on demand-driven inflation, which had to resume its decline. This process therefore was also up to the Fed, which operates to influence demand (by curbing it, in this case, by pausing its rate cuts and thus maintaining a fairly restrictive monetary policy) but not supply.

The second lesson we draw is that, as the tariff shock is partly a supply shock, its inflationary impact should be seen in an upturn in the supply-driven component of inflation. At the same time, the negative impacts of the tariff shock on growth should pull down demand-driven inflation. Which effect will prevail in the coming months? That is the question. We anticipate that it will be the former, the inflationary one. But there are still many uncertainties surrounding this scenario.

¹ For an overview of this approach, see [How Much Do Supply and Demand Drive Inflation? - San Francisco Fed](#), 21 June 2022. This work was extended by Lansing (2025), using these components in an estimated Phillips curve-type relationship ([Is Demand or Supply More Important for Inflation? - San Francisco Fed](#), 23 June 2025).

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KEY POINTS: inflation down in May, except in the United States

- In May, the United States stood out for an increase, albeit very slight, in its inflation (from a higher level), while it slowed sharply in the eurozone and fell slightly in the United Kingdom and Japan. Among the unfavourable developments to watch out for, energy commodity prices (oil and gas) have started to rise again since April (page 24), as has the break-even inflation rate, which could support inflation over the coming months. Conversely, two positive dynamics are emerging: wage growth is moderating, and price pressures (on the supply side) are easing, with the notable exception of the United States.
- In the United States, CPI inflation rose very slightly in May (from +2.34% to +2.37% y/y). Although this increase contrasts with the sharp fall in inflation in the eurozone, it was smaller than expected and still bears no visible trace of the rise in tariffs. Core inflation remained stable at 2.8% y/y for the third consecutive month (page 7). Wages continue to moderate (page 22) and household inflation expectations, which had reached exceptionally high levels in April, moderated somewhat in June (page 16). Nevertheless, the price components of the business surveys signal that supply-side pressures are rising again, and are back at their highest level since September 2023 (page 14). Lastly, the break-even inflation rate has risen slightly since April, perhaps reflecting that financial markets are beginning to worry about the inflationary impact of tariffs.
- In the eurozone, disinflation continues. In May, it even (re)crossed an important threshold, falling below 2% y/y (it had already crossed this threshold in September 2024, at 1.7%). Total harmonised inflation fell by 0.3 percentage points compared with April, to 1.9%, while core inflation fell by 0.4 percentage points, to 2.3%. Cyprus posted the lowest inflation (0.4%), followed by France (0.6%), while Croatia (4.3%), Slovakia (4.3%) and Estonia (4.6%) saw the biggest rise in prices. In addition, the producer price index has slowed sharply in the eurozone since February (+0.7% y/y; -2.3 pts), as has negotiated wages growth (+2.5% y/y; -1.7pp since December). In addition, forecasters continue to anticipate inflation of 2% over the next 1 and 5 years. The outlook therefore remains favourable in the eurozone.
- In the United Kingdom, the overall picture is also positive, even if the momentum remains much less favourable than in the eurozone. After rising to 3.5% y/y in April, inflation fell very slightly in May (+3.4%). Core inflation is also decelerating, returning to the level of the headline measure for the first time since October 2023. Wage growth moderated markedly in April (+4.8% y/y; -0.7pp m/m), and price pressures eased somewhat (page 14). Households' (3.3% y/y; -0.2pp) and City/Yougov's (4.0%; -0.2pp) 1-year inflation expectations declined compared with last month. However, households' long-term expectations remain high and continue to exceed the levels recorded during the inflationary crisis (page 18).
- In Japan, the picture is mixed. Total inflation continued to slow in the second quarter (3.4% in May; -0.1pp m/m), due to a further fall in the contributions of volatile components (energy, perishable food). And the outlook for the coming months points to a stabilisation of inflation: the price pressure indicator (on the supply side) continues to decline (page 14), 1-year household inflation expectations slowed very slightly in April (page 19) and the producer price index is slowing sharply (+3.2% y/y in May; -1.1pp m/m) (page 12). After moderating significantly at the start of the year, average monthly wages excluding bonuses nevertheless rose in April (+2.1% y/y; +0.7pp) (page 22). On the other hand, core inflation (excluding perishable food; BoJ target) and core-core inflation (which excludes energy) both rose in May (to, respectively, 3.7% y/y (+0.2pp) and 3.3% y/y (+0.3pp)).

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General dynamics of inflation

Inflation and survey data

Inflation expectations (households, forecasters, markets)

Inflation-wage dynamics

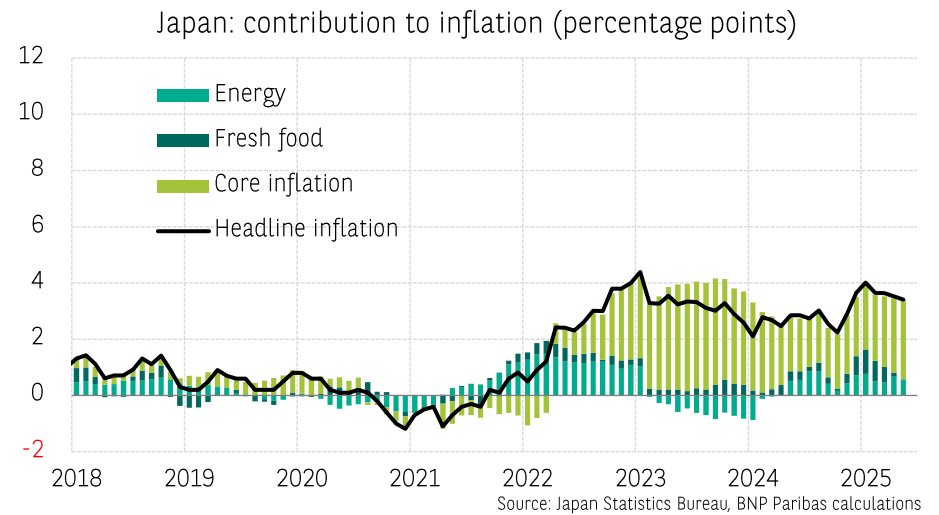
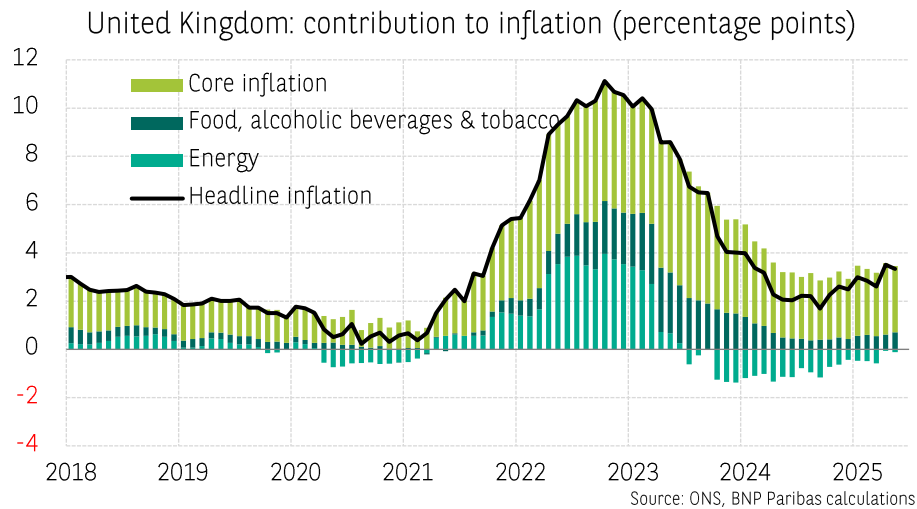
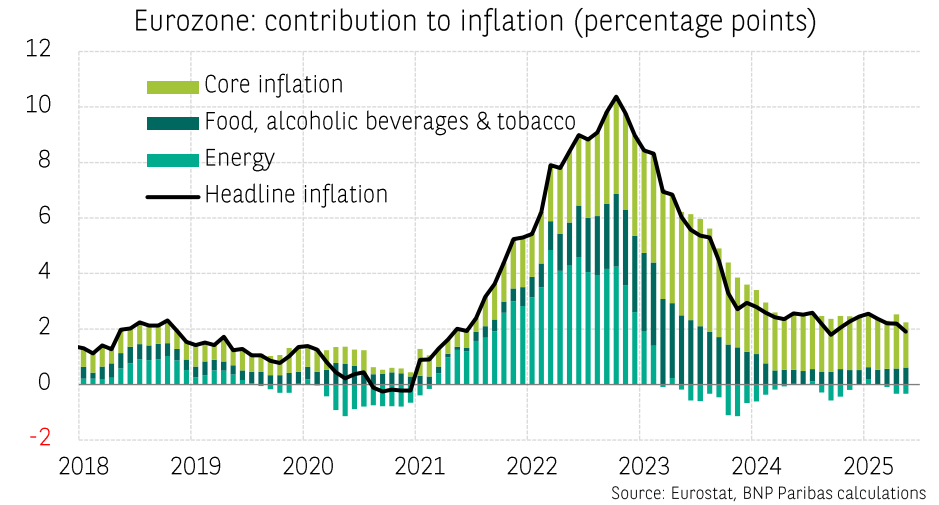
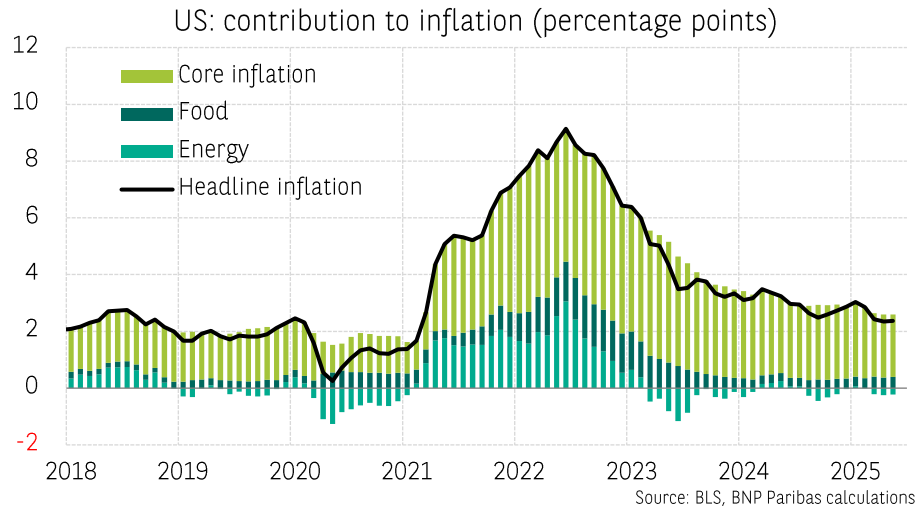
Commodities



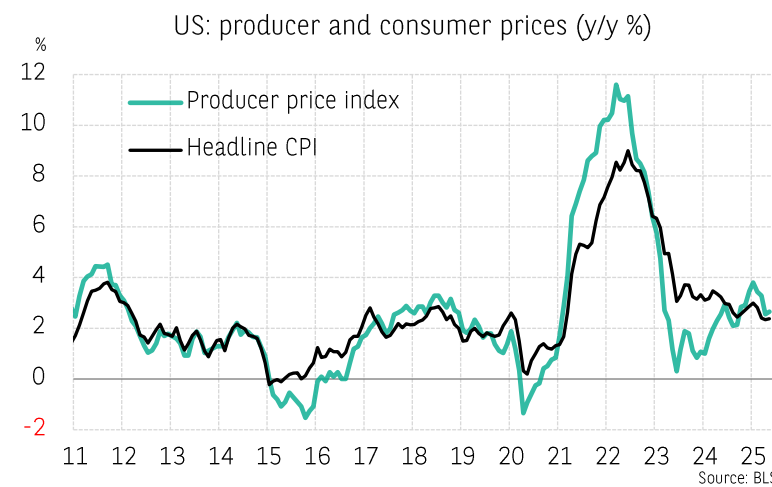
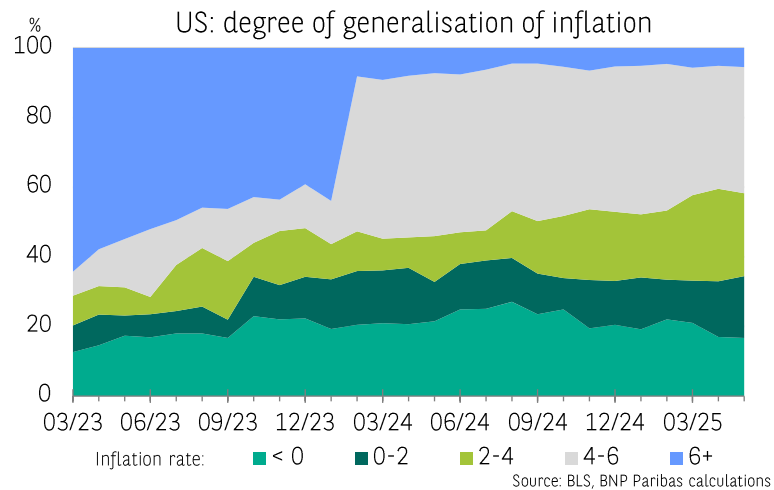
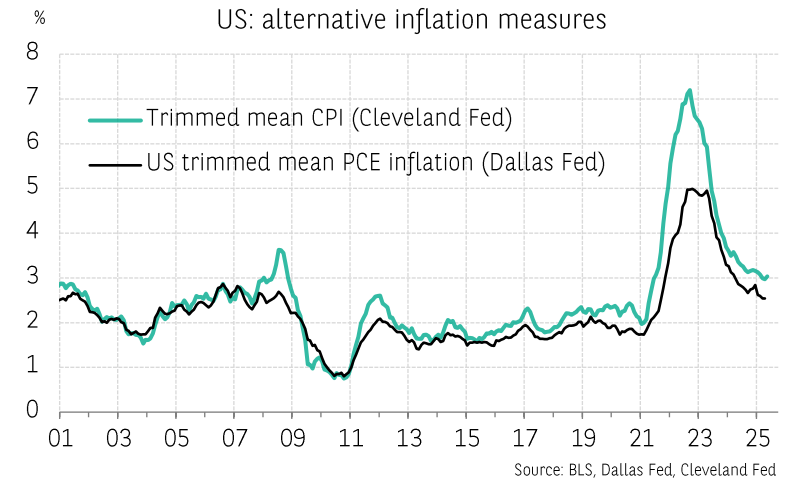
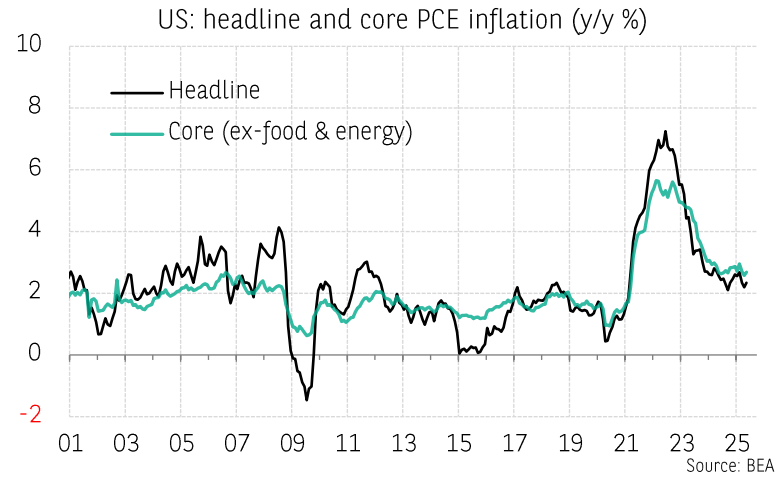
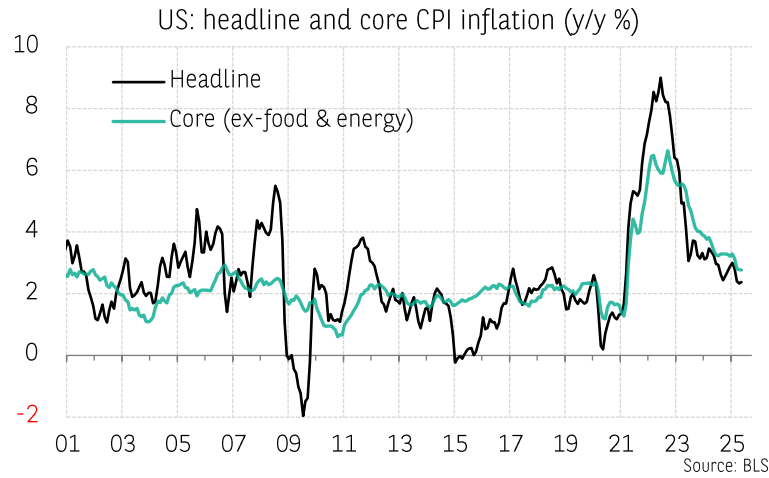
General dynamics of inflation



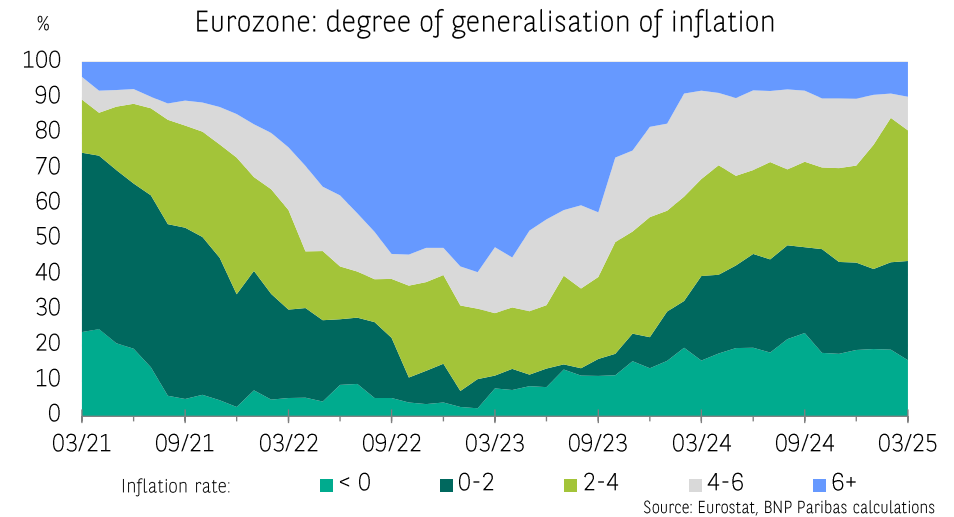
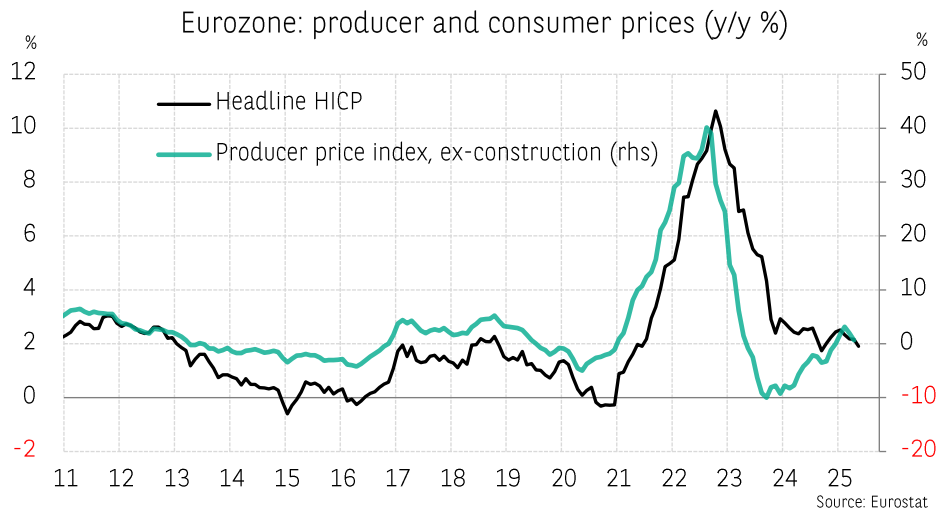
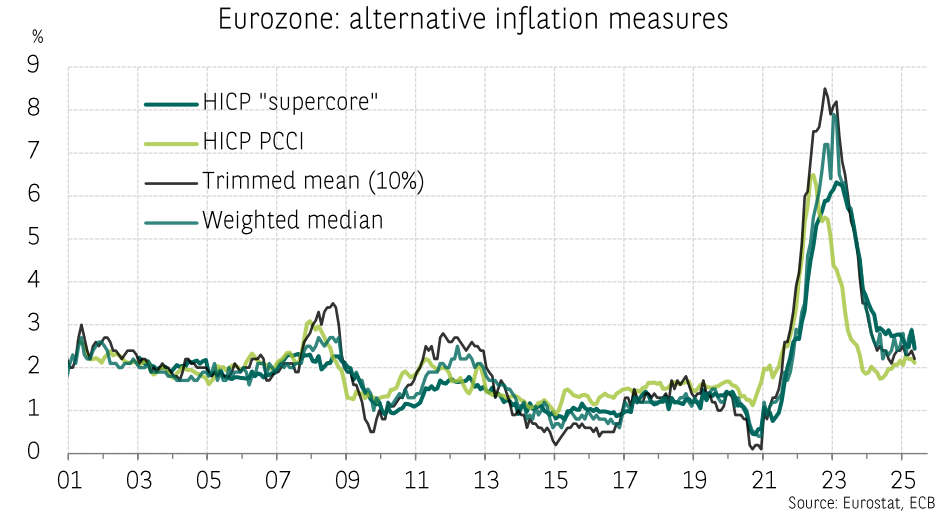
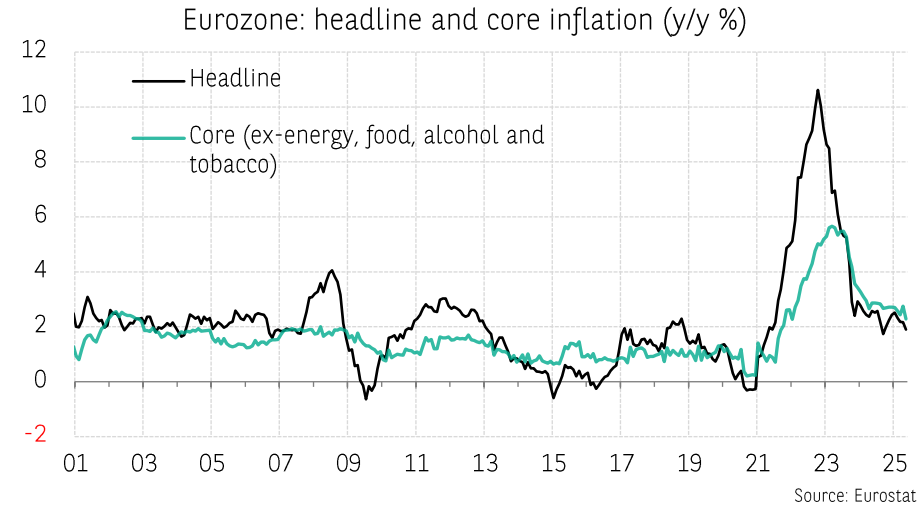
General dynamics of inflation: decomposition of inflation



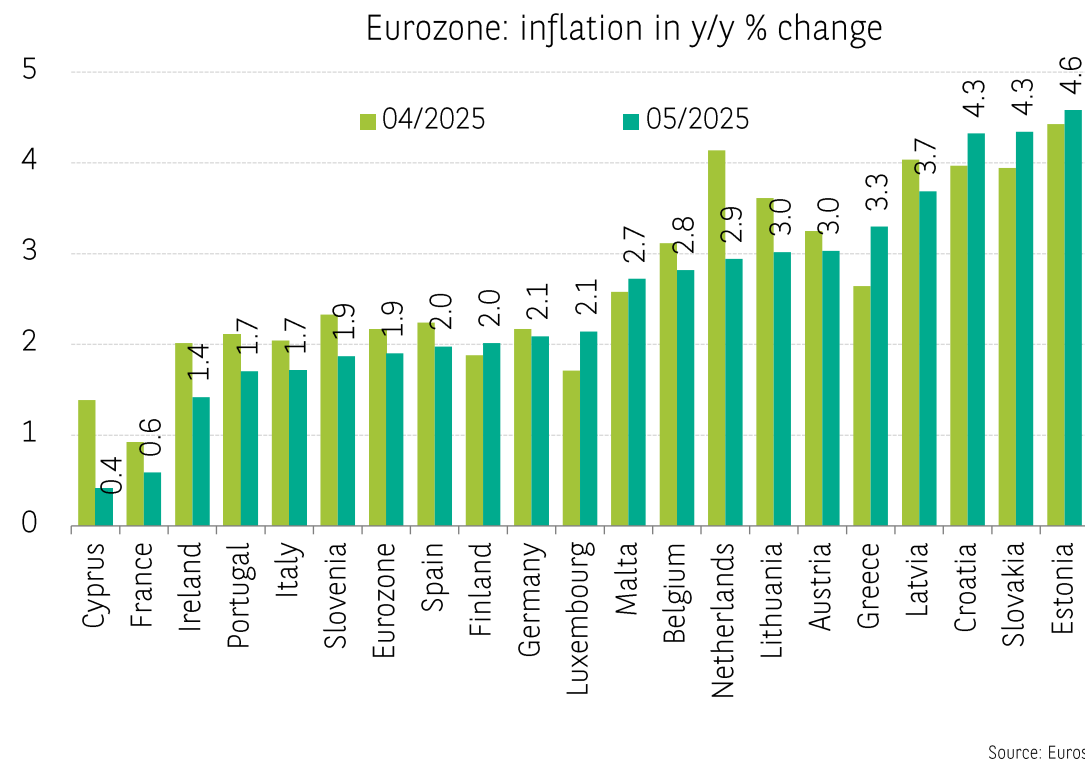
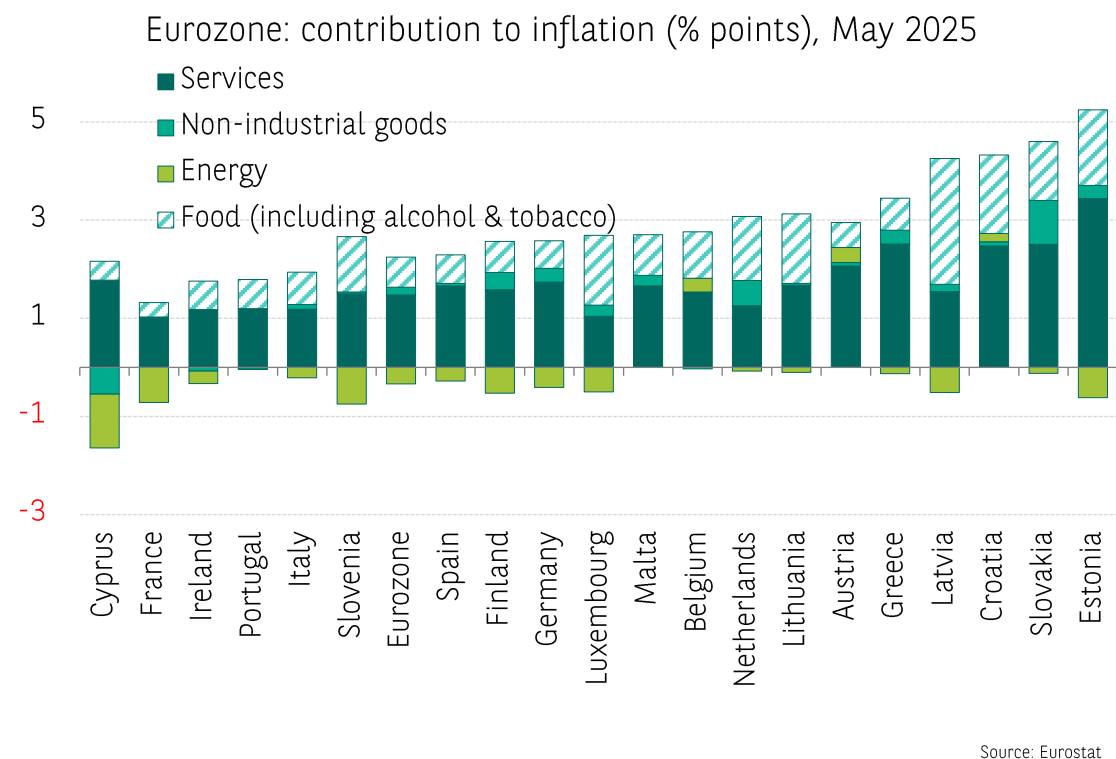
Inflation dynamics in the United States: different metrics and degree of generalisation



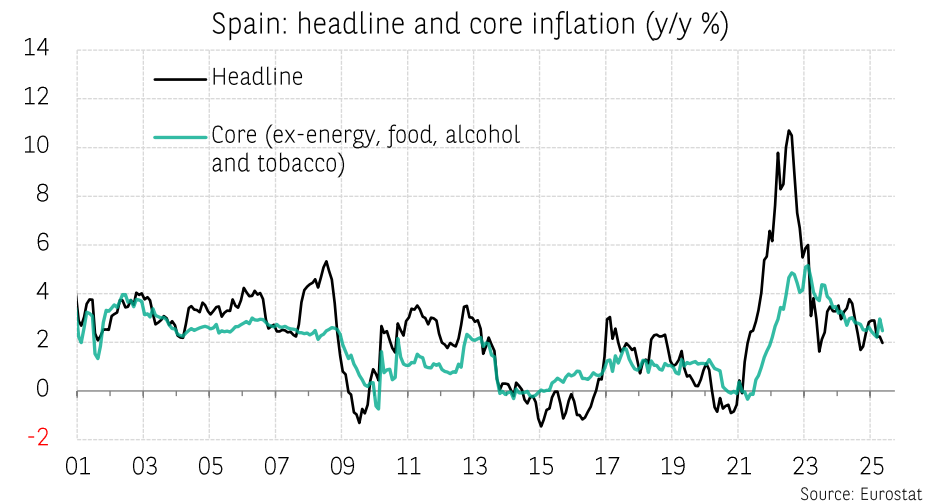
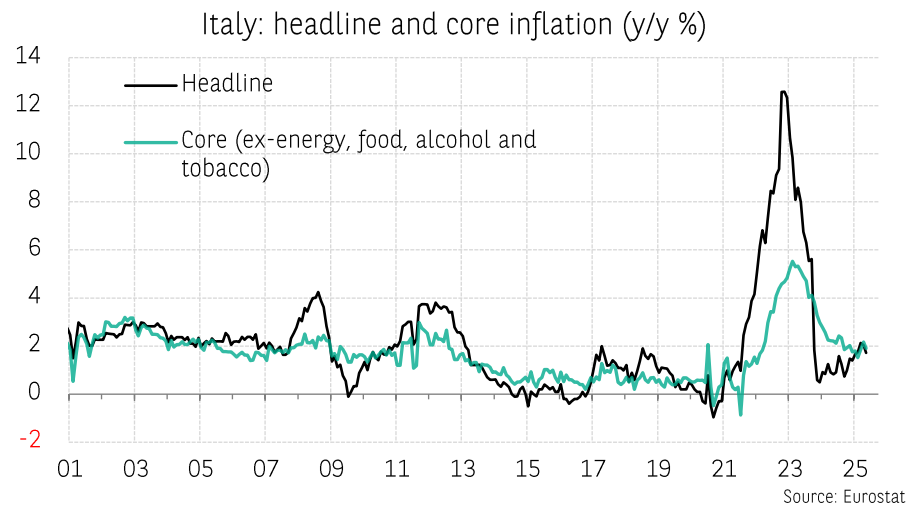
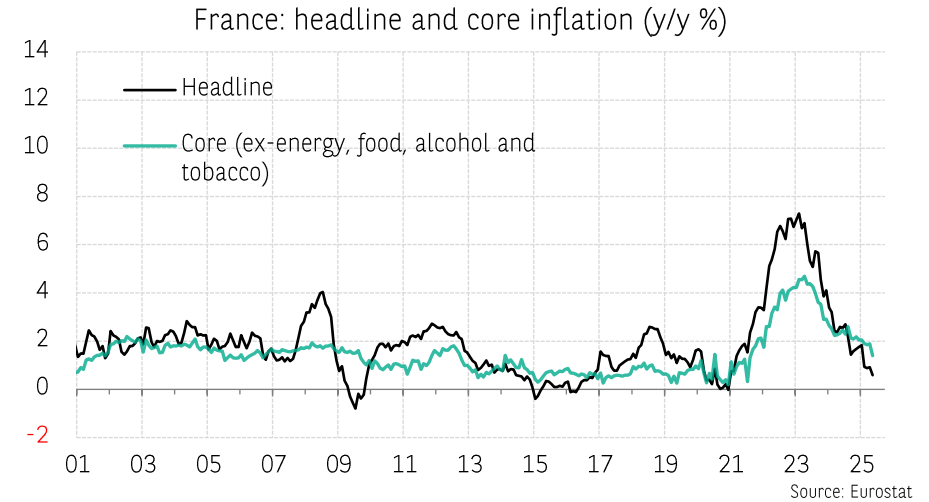
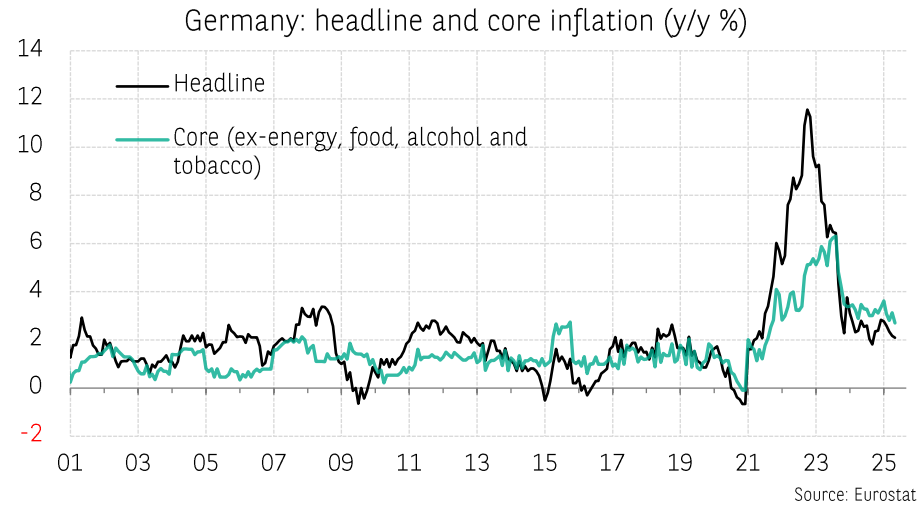
Inflation dynamics in the Eurozone: different metrics and degree of generalisation



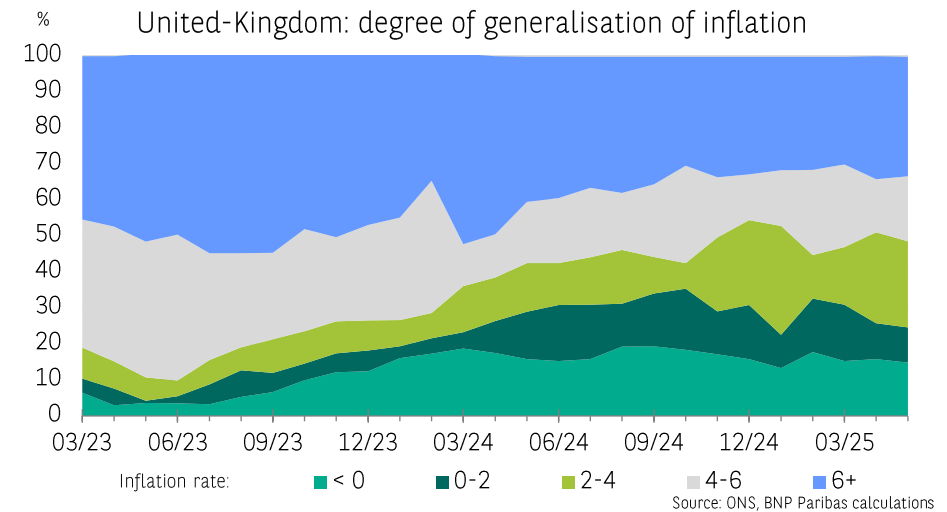
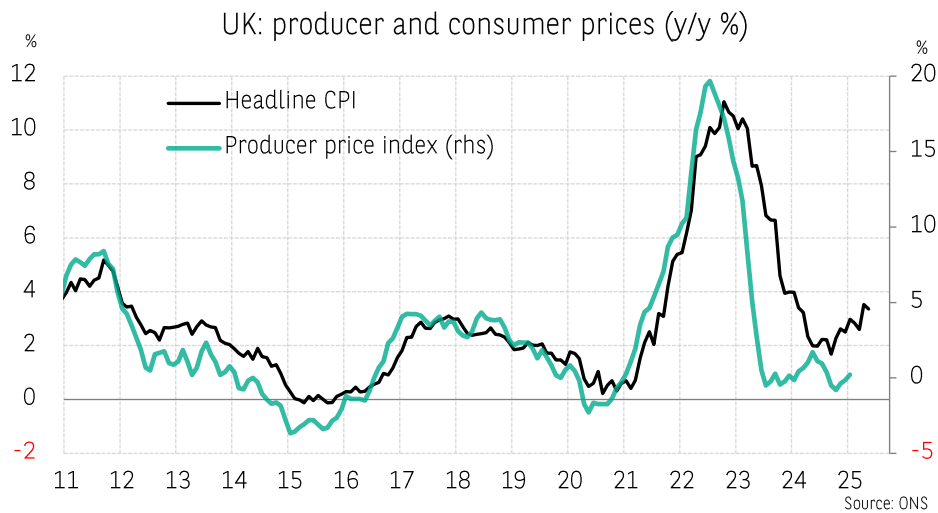
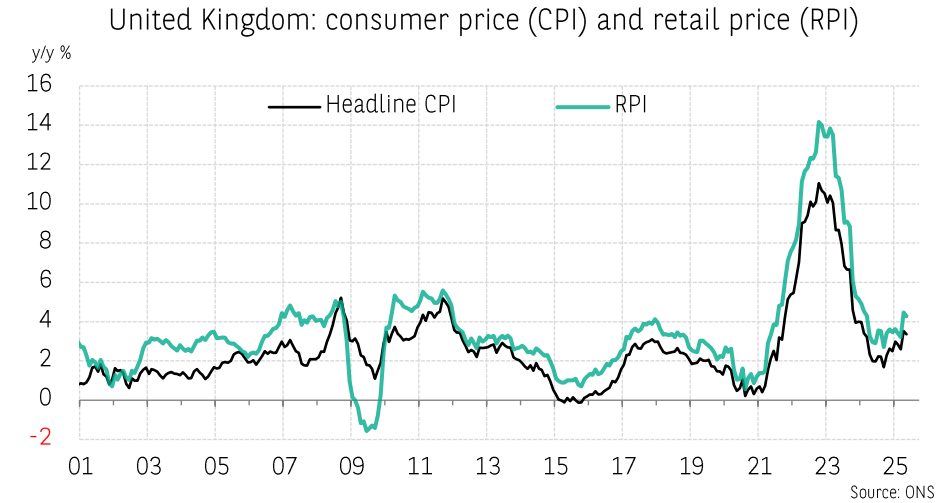
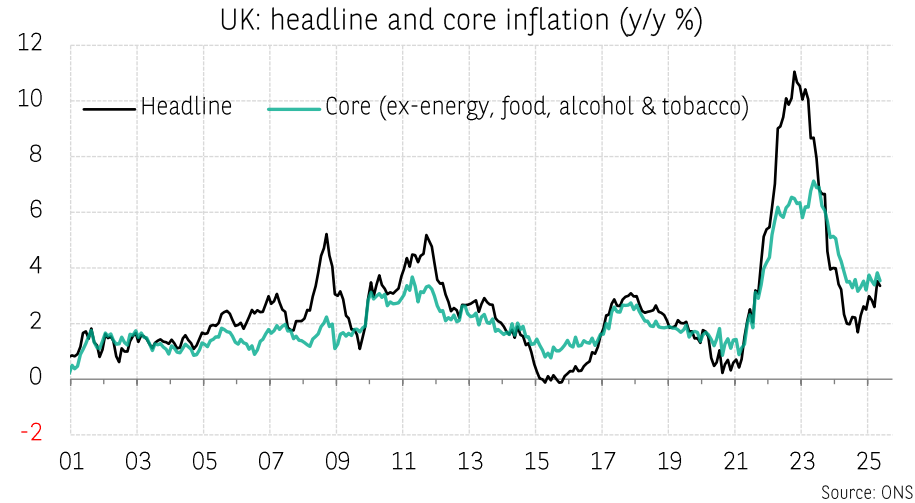
Inflation dynamics in the Eurozone by country (1)



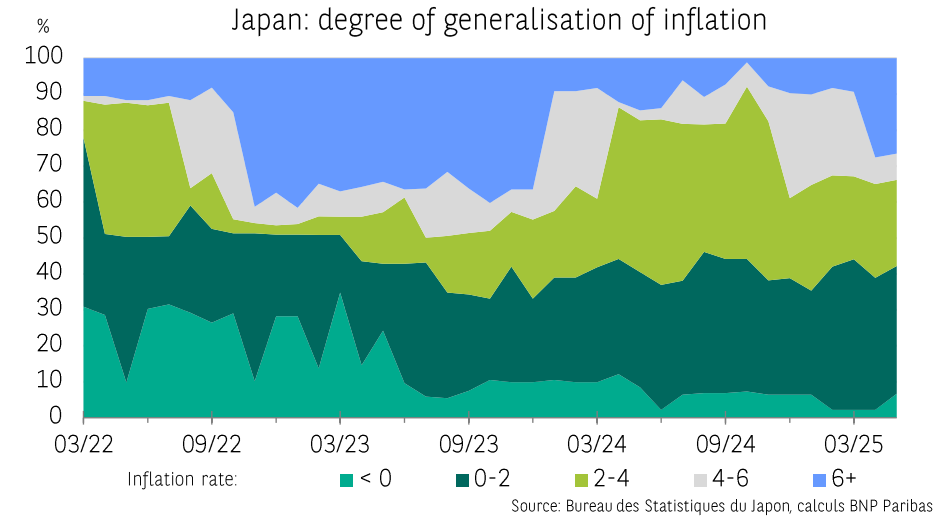
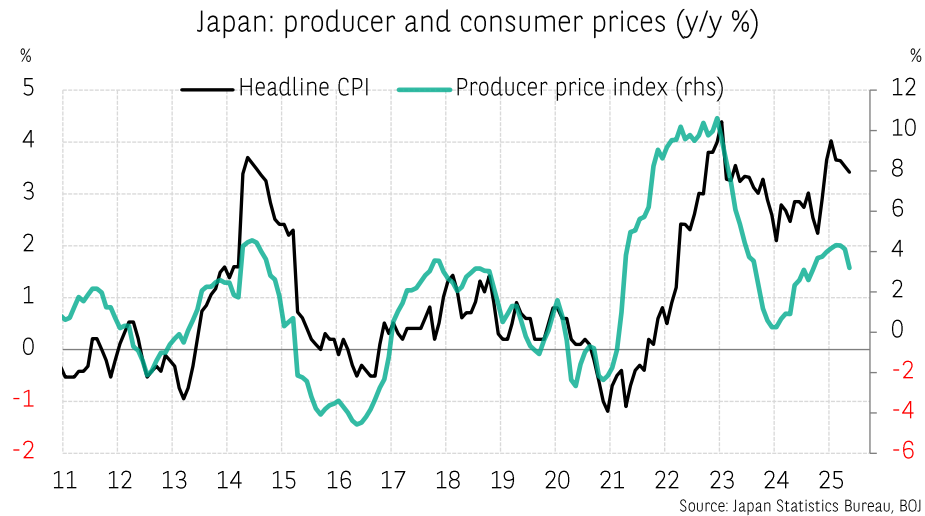
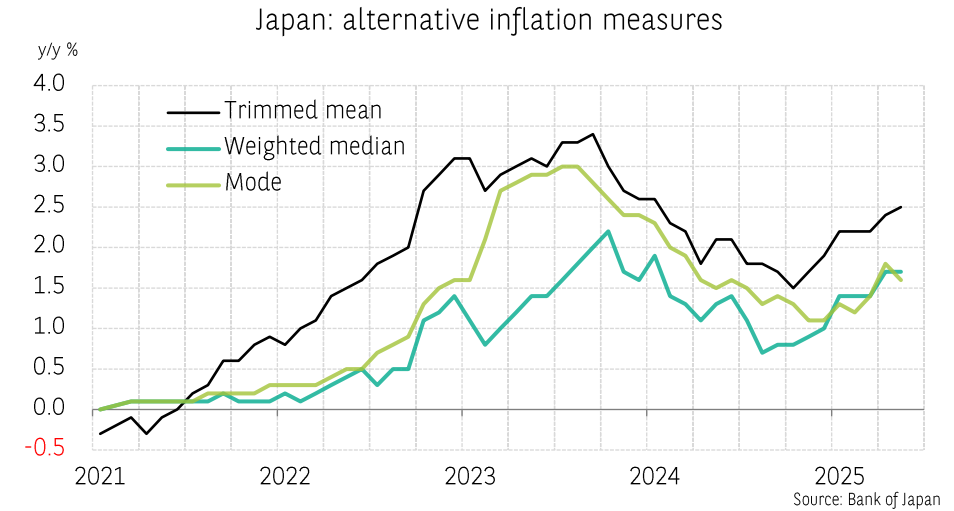
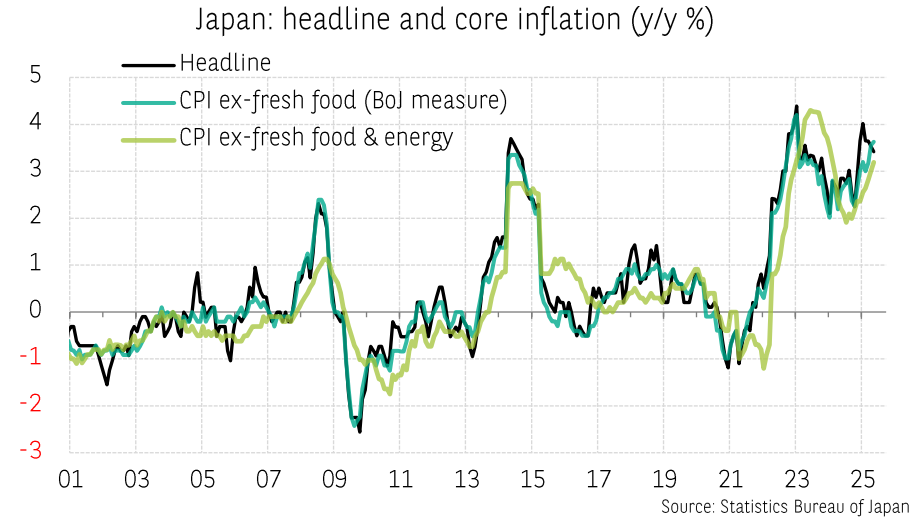
Inflation dynamics in the Eurozone by country (2)



Inflation dynamics in the United Kingdom: different metrics and degree of generalisation



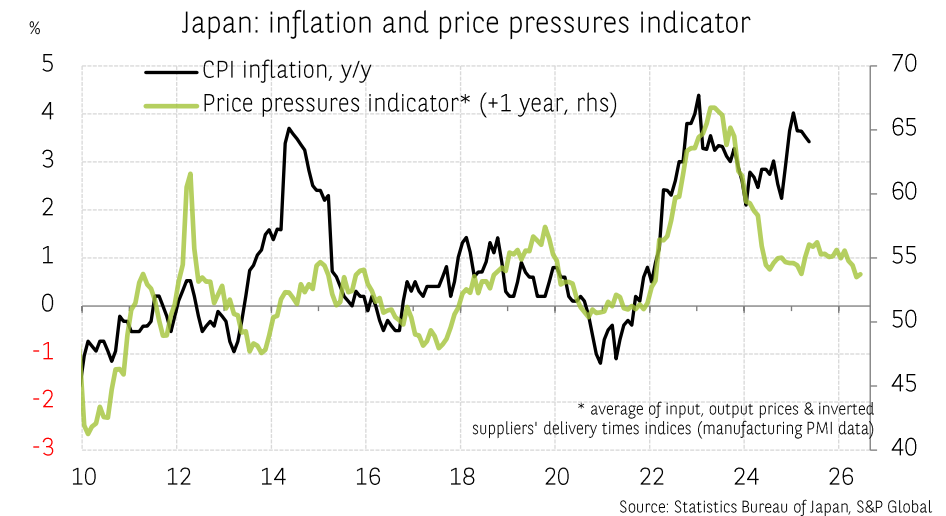
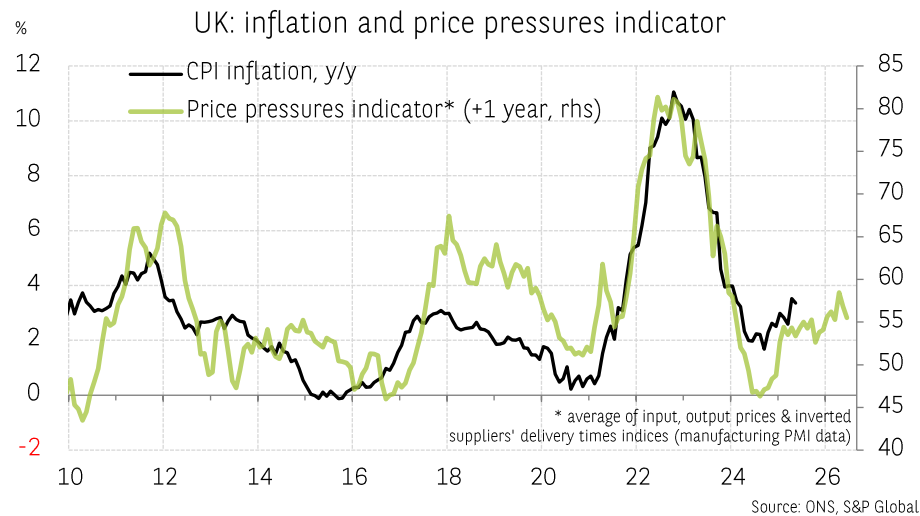
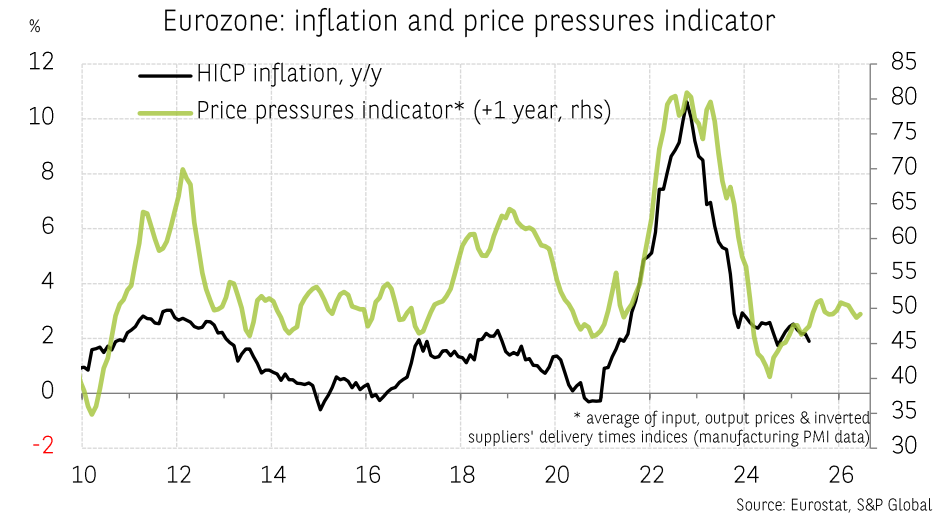
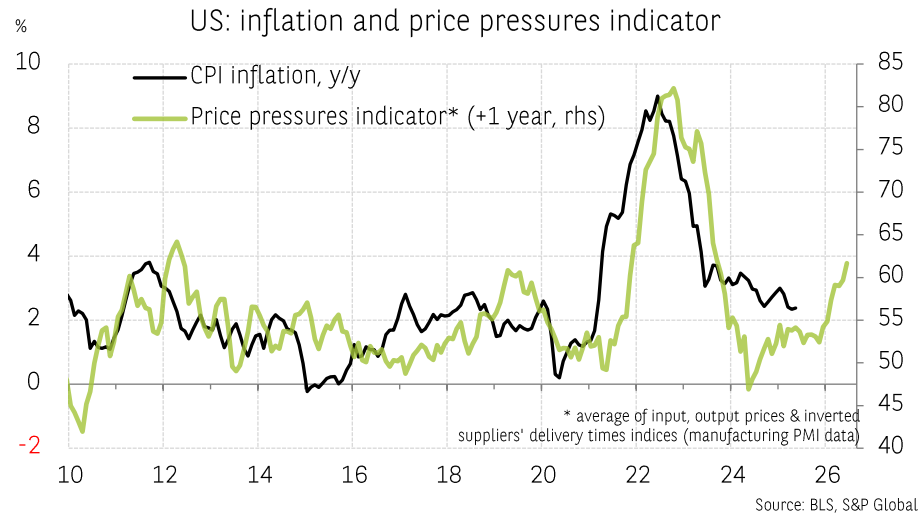
Inflation dynamics in Japan: different metrics and degree of generalisation



Inflation and survey data



PMI surveys: an indication of inflationary pressures

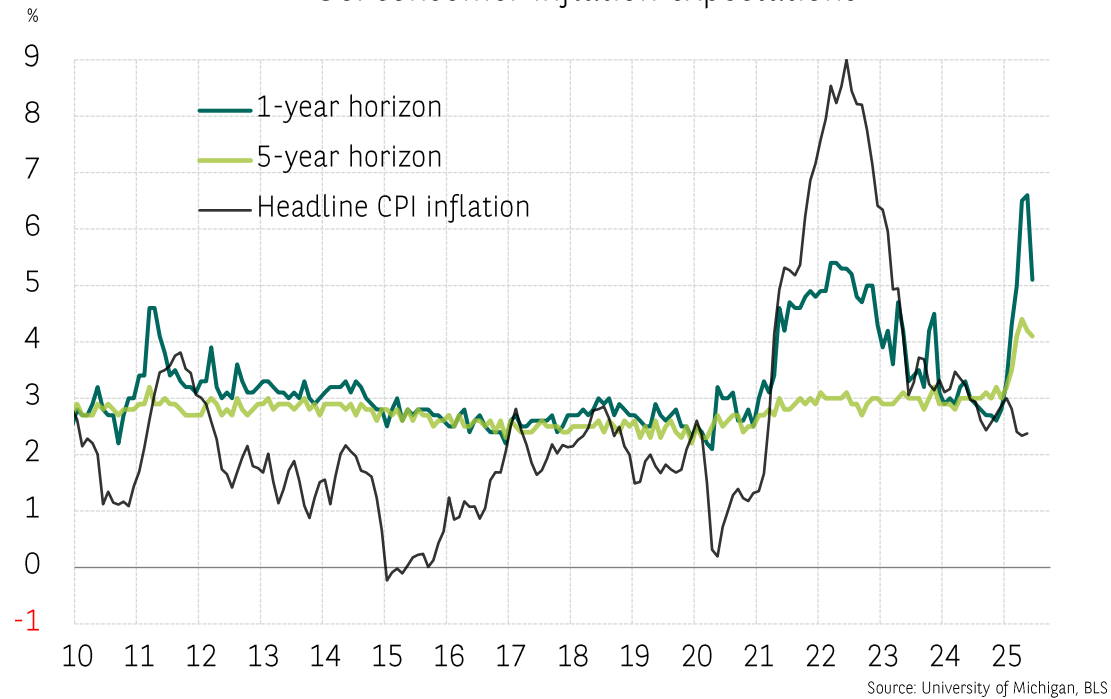


Inflation expectations (households, forecasters, markets)

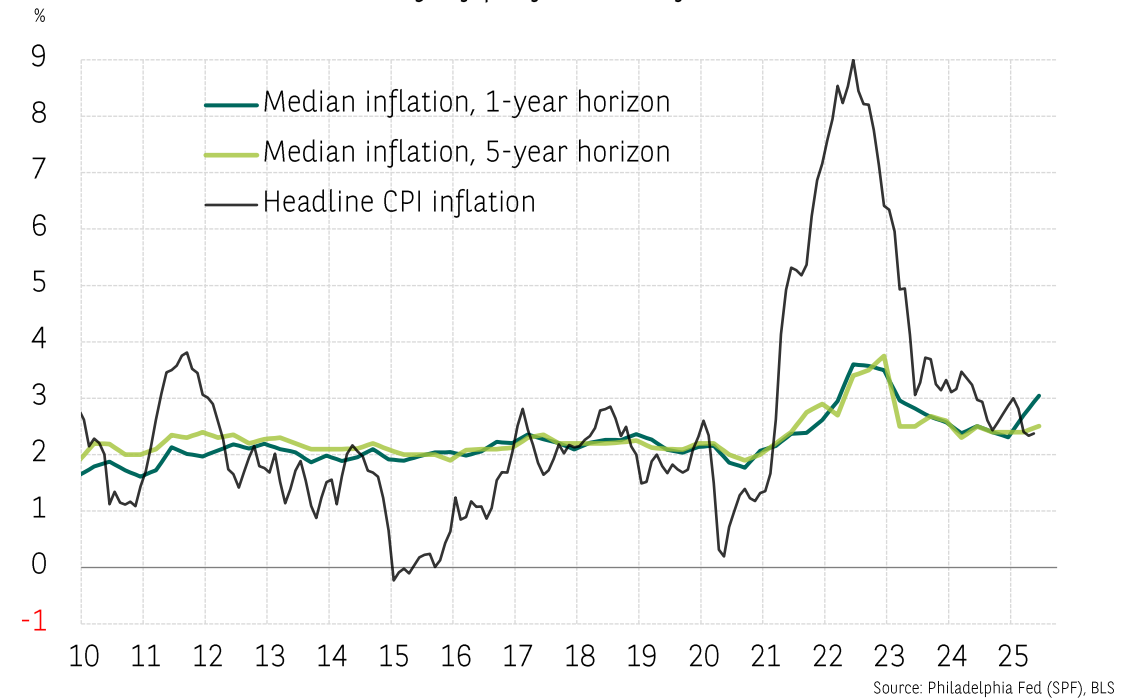


Inflation expectations in the United States

US: consumer inflation expectations

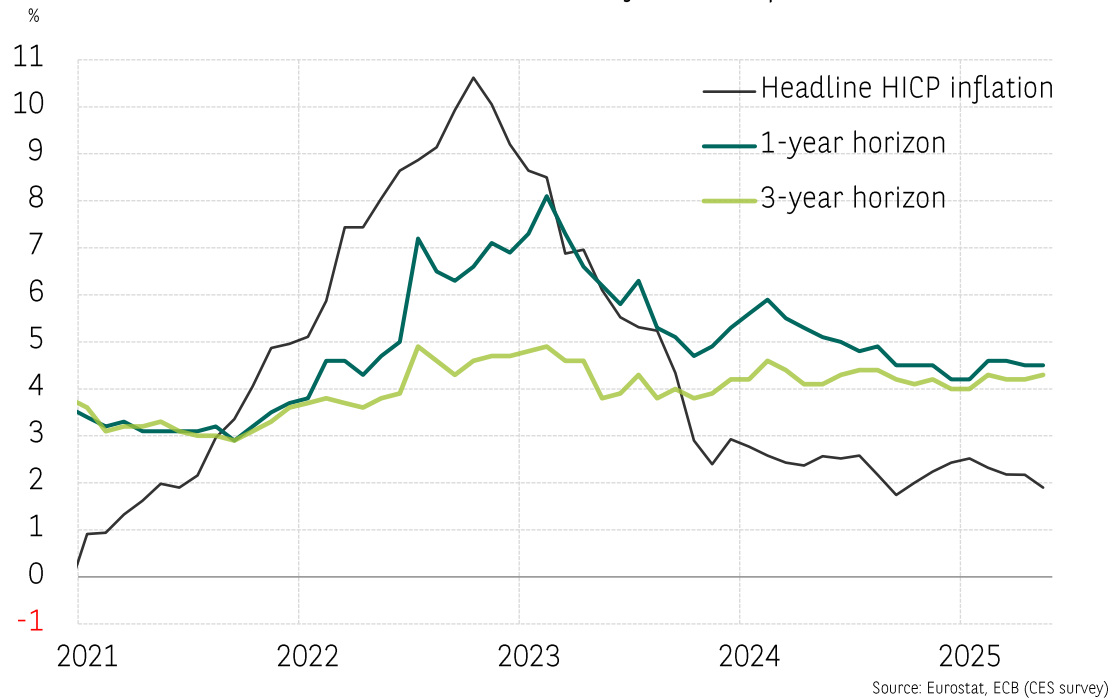


US: Survey of professional forecasters

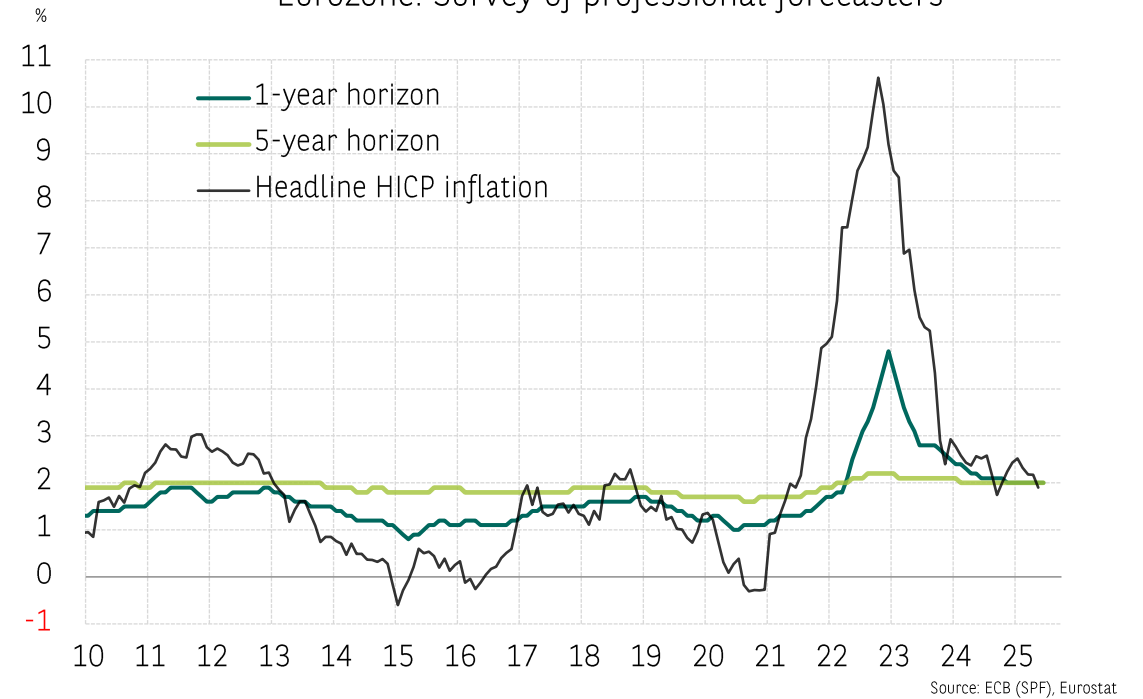


Inflation expectations in the Eurozone

Eurozone: consumer inflation expectations



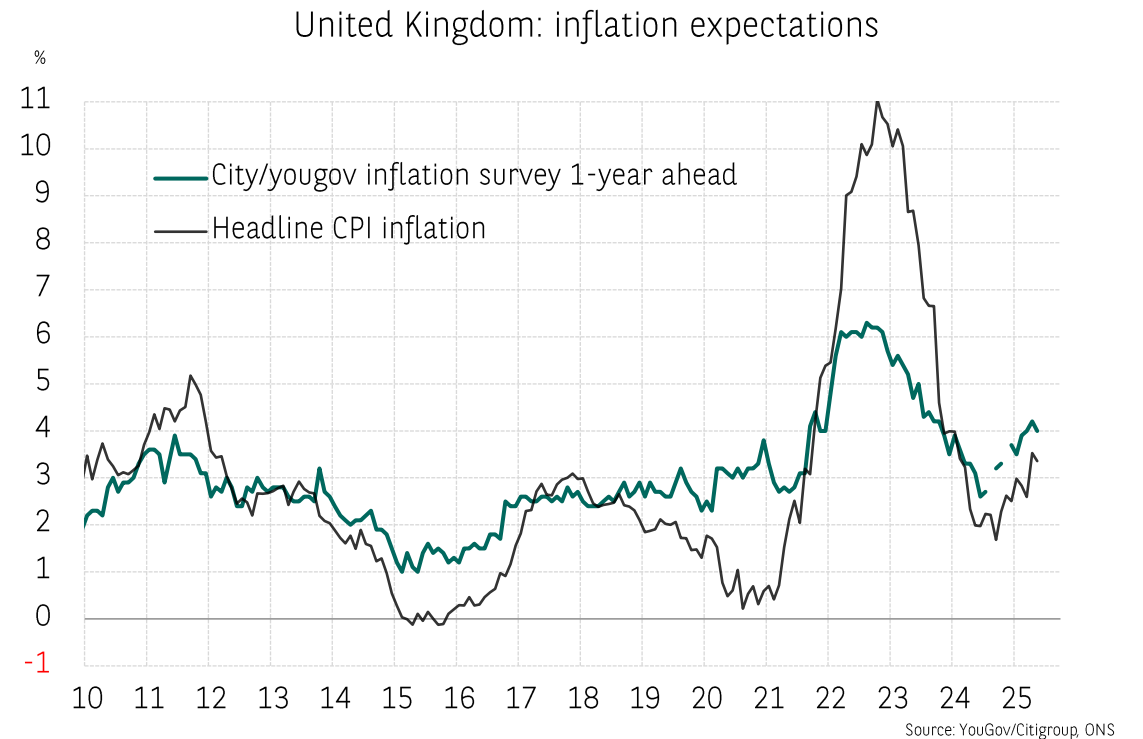
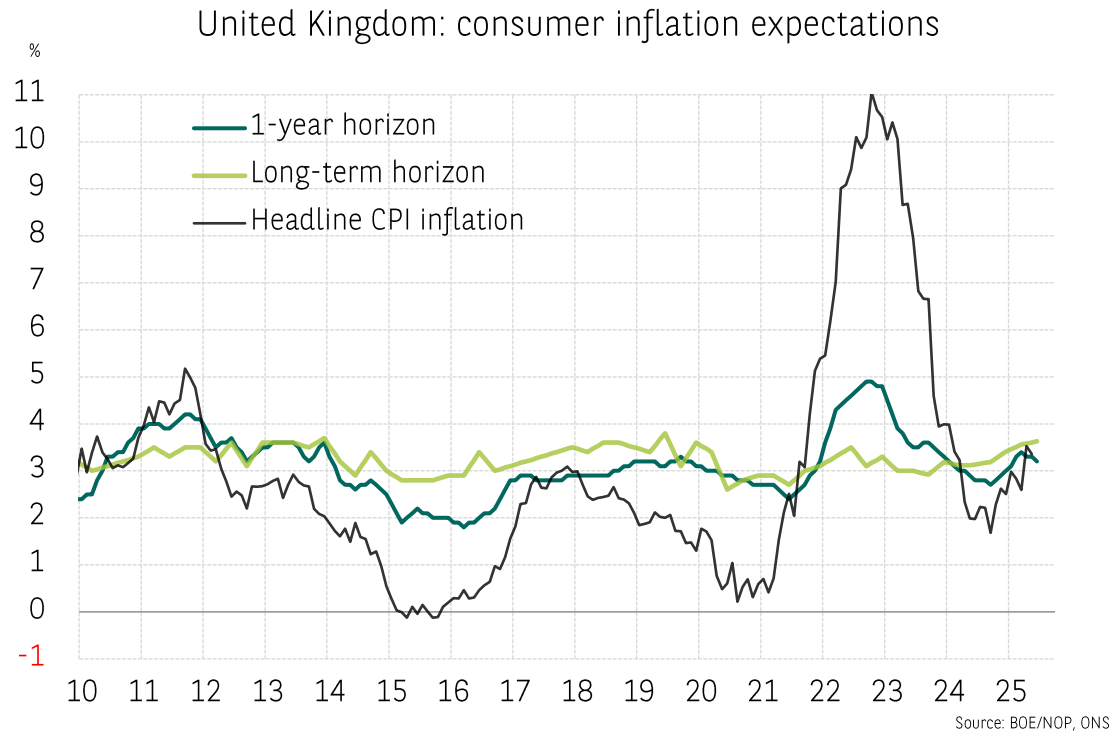
Eurozone: Survey of professional forecasters



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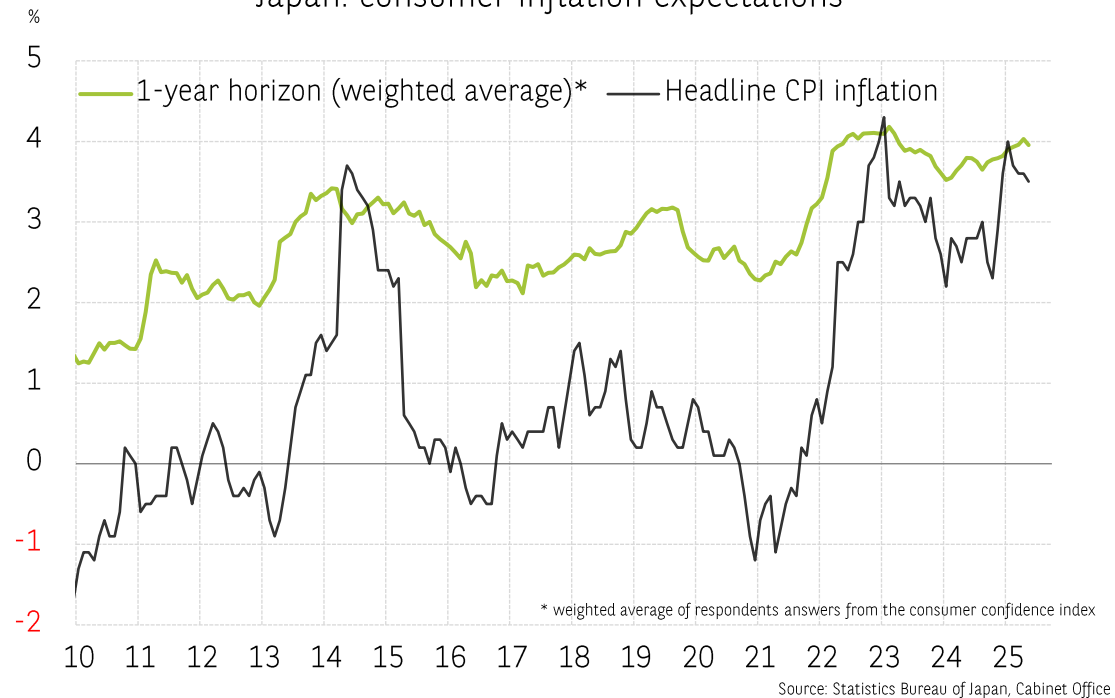
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Inflation expectations in the United Kingdom

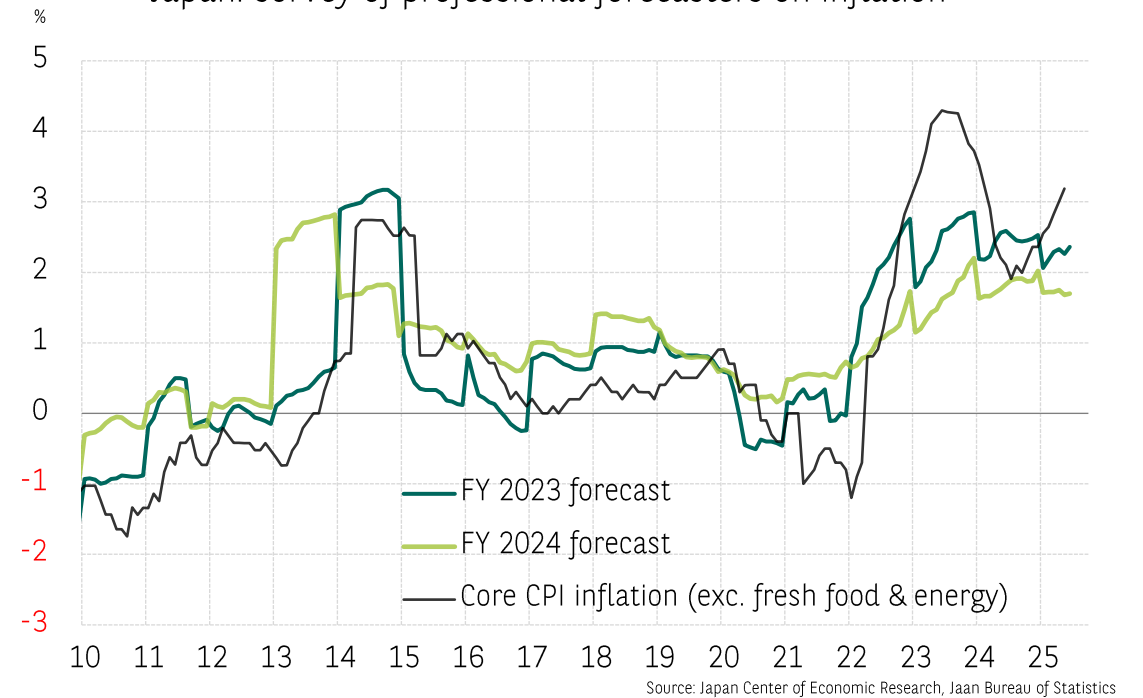


Inflation expectations in Japan

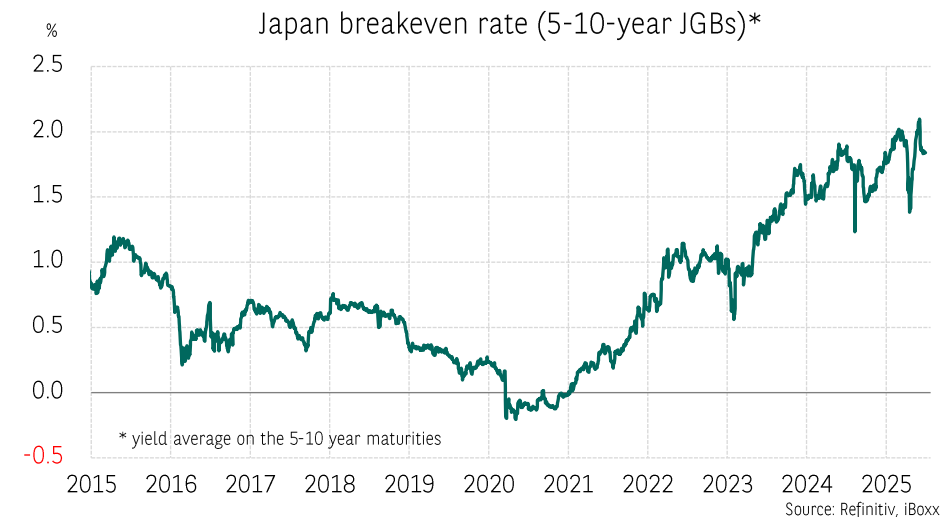
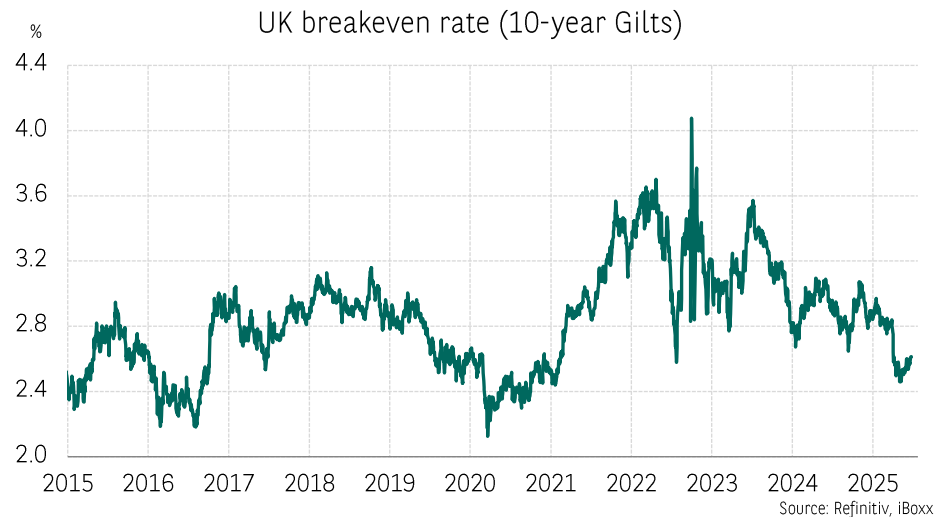
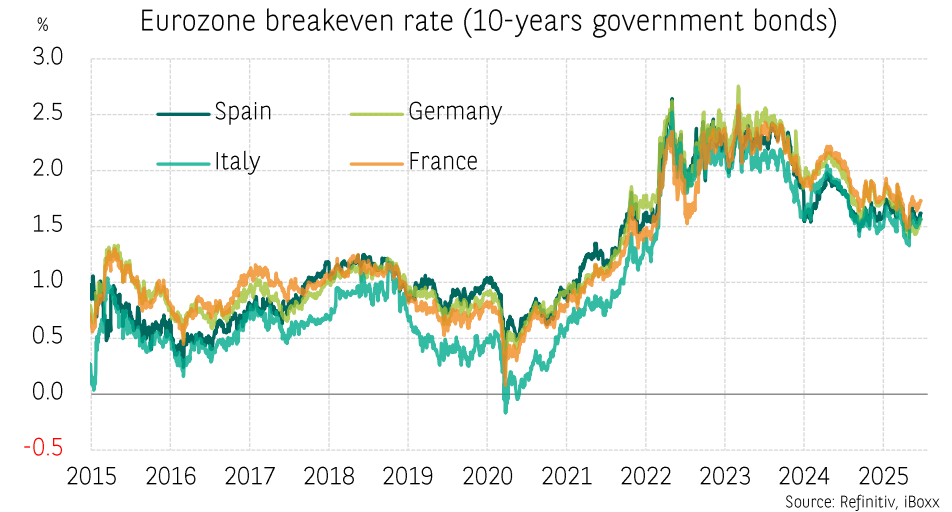
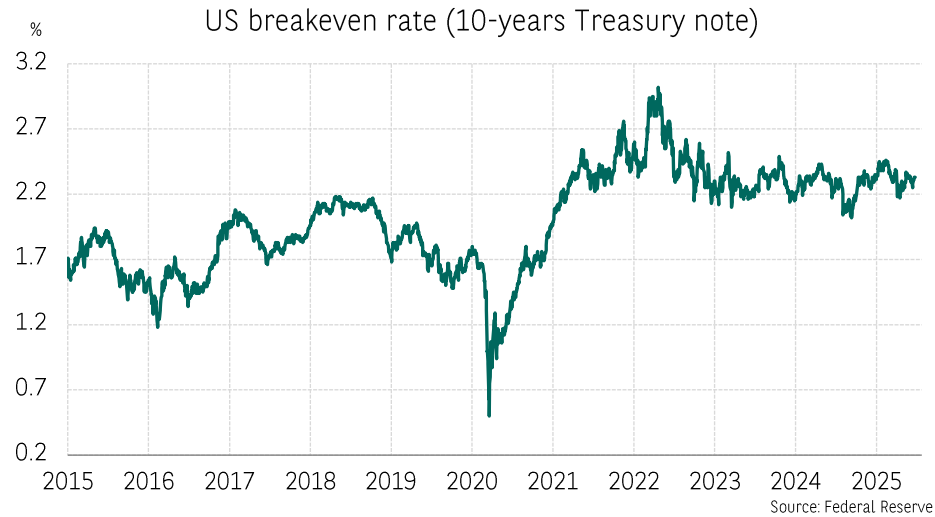
Japan: consumer inflation expectations



Japan: survey of professional forecasters on inflation



Market expectations: breakeven inflation rate

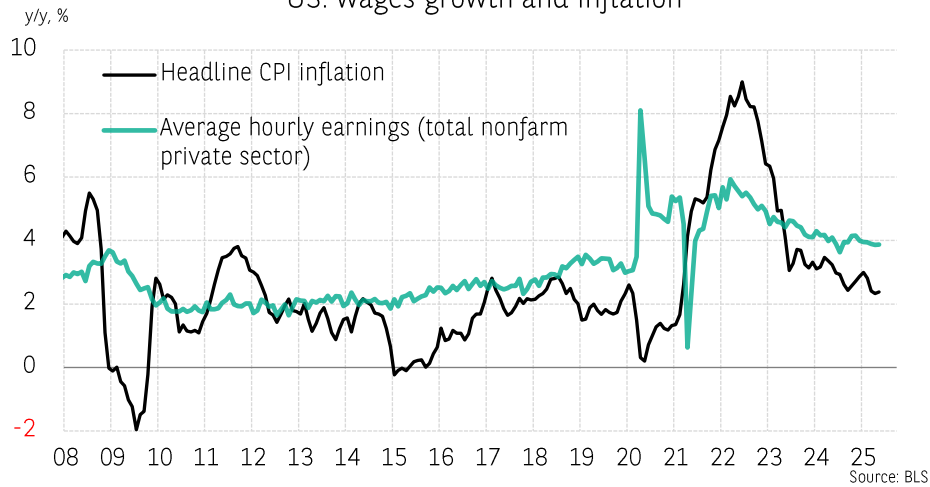


Inflation-wage dynamics



Inflation-wage dynamics

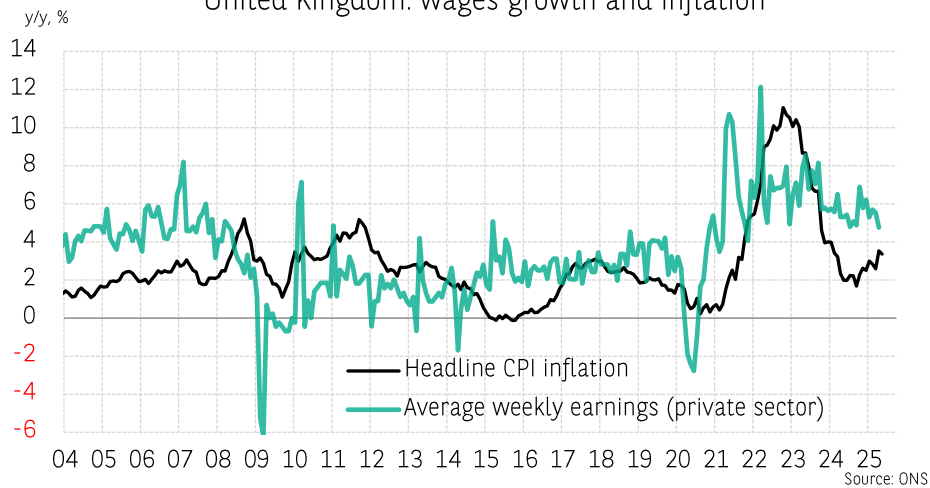
US: wages growth and inflation



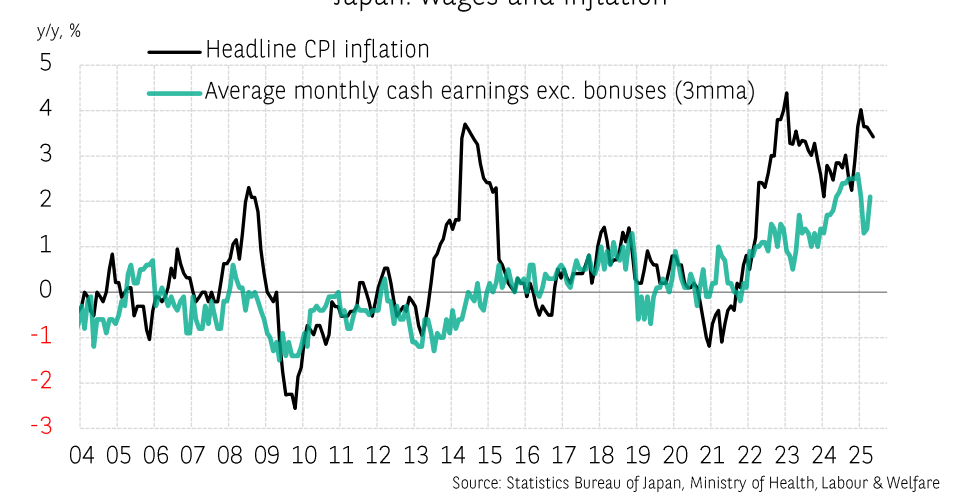
Eurozone: wages growth and inflation



United Kingdom: wages growth and inflation



Japan: wages and inflation



Commodities



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Commodities

WTI crude oil price, USD/barrel



Natural gas price, USD/million BTU



S&P GSCI industrial metal spot price index



S&P GSCI agriculture spot price index



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