

### Inflation Yet to Reflect Impact of Tariffs; Upstream Cost Pressures Beginning to Intensify

**Headline CPI inches up in April amid notable trade policy shifts.** Changes to consumer prices in April indicate that tariff-related costs increases have yet to pass through to households. During the month, the consumer price index for all items rose 0.2 percent, bringing the annual inflation rate to 2.3 percent. Core CPI, meanwhile, remained unchanged at 2.8 percent year over year. Underlying price pressures were relatively stable during the month, and the recent 90-day agreement between the U.S. and China in May to reduce tariffs has interrupted the escalation of trade tensions. Even so, in-place duties are expected to place upward pressure on inflation in the coming months. Rising business input costs — reflected in recent Institute of Supply Management data — point to mounting cost burdens that could also reaccelerate consumer price growth in the months ahead.

**Input cost surge flags inflation risk.** The ISM Manufacturing Prices Paid Index rose in April to its highest level since June 2022, signaling production cost increases across the supply chain. The upswing was driven primarily by tariff-related disruptions, with rising raw material costs a primary contributor. Historically, movements in this index have preceded shifts in consumer inflation, but the extent of pass-through will depend on the strength of consumer demand. With household budgets already strained and consumer confidence weakening, retailers may encounter heightened resistance to price increases. As a result, financial pressure could build, particularly in the manufacturing and logistics sectors, which may soften demand for big-box industrial space and reduce development activity.

**Front-loading may delay consumer price hikes.** A number of companies pulled inventories forward ahead of anticipated tariffs, fueling a surge in consumer goods imports in early 2025. The resulting inventory buildup may provide a temporary price buffer; however, when inventory cycles turn over, many businesses are likely to face cost pressures. Walmart recently warned that tariff-driven price hikes could surface by late May, likely posing the most risk to discretionary goods such as apparel, where April's price declines suggest softer demand. Meanwhile, the continued rise in the Personal Care Index signals more resilient spending, which may enable beauty and health-related retail tenants to raise prices with less risk of losing customers.

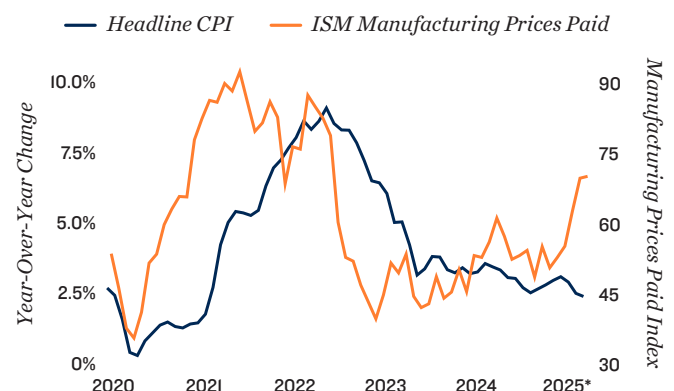
**Rising utility costs weigh on multifamily operations.** The energy services category recorded a 1.5 percent increase in April, bringing the annual rate to 6.2 percent — one of the more volatile components of the CPI. This sustained rise in utility costs continues to pressure both tenants and landlords. The impact is often most acute across mid-market and lower-income multifamily properties. Tenants here are more price-sensitive and utility charges are less frequently passed through by owners, affecting a property's operating income. Moving forward, rising energy expenses may prompt more landlords to invest in efficiency upgrades or shift utility costs to tenants where feasible.

**Climbing auto expenses favor transit-accessible housing.** Motor vehicle insurance, maintenance and repair costs continued to rise in April. Both categories posted year-over-year growth rates exceeding 5 percent. Escalating personal transportation expenses and gas prices are tightening household budgets. Potential hikes in new vehicle prices tied to tariffs may further strain consumers, which may prompt renters to prioritize housing in locations with strong transit access or high walkability. Should this trend materialize, leasing at centrally located or transit-oriented rentals is poised to improve.

**2.3%** Increase in Headline CPI Year Over Year

**2.8%** Increase in Core CPI Year Over Year

#### Input Cost Surge May Drive CPI Higher



\* Through April

Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CME Group; CoStar Group, Inc.; Federal Reserve; RealPage, Inc.



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