

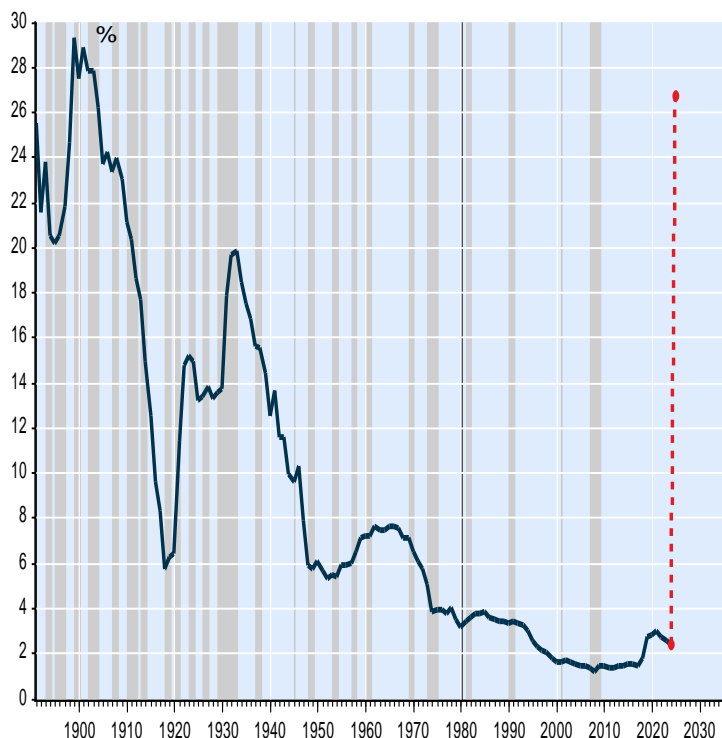
U.S. Watch

By Stéfane Marion and Ethan Currie

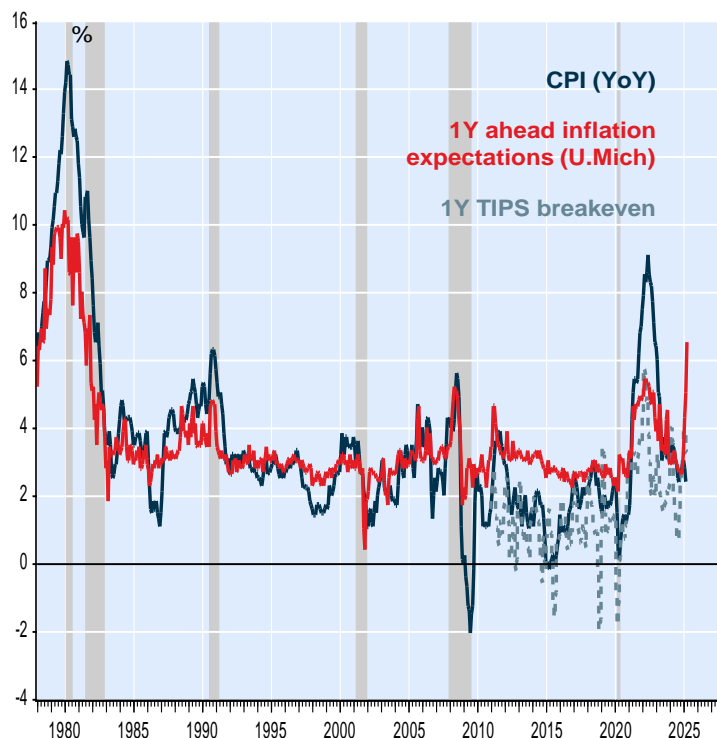
Data released today from the University of Michigan shows that U.S. consumers remain pessimistic amidst an uncertain global economic and trade outlook. Sentiment measures are under pressure and inflation expectations – in both the near term and longer term – are elevated in a historic fashion. As today's *Hot Chart* shows, the U.S. effective tariff rate is on track for the largest single-year jump on record, reaching a level not seen since 1901. Even if anticipated negotiations provide an avenue to lower tariffs, elevated levels - not seen in decades - may persist, weighing on the FOMC's ability to bring inflation back down to target. That said, policymakers have been keen on dismissing survey-based inflation measures and instead insist that market-based metrics (i.e., TIPS) reflect still-anchored expectations. Unfortunately for the Fed, there is no blueprint to navigate monetary policy in the case of elevated tariff rates, should you use TIPS (introduced in 1997) as your guide. The University of Michigan survey results for inflation expectations have tended to coincide with CPI moves, especially in times of crisis. This is truly an 'out-of-sample' period, and thus no time for central bank complacency. Perhaps consumer expectations are not a perfect indicator of where inflation is heading, but when there is a historically wide gap between market and survey thinking, combined with unprecedented trade developments, the Fed might be wise to give both consideration.

U.S.: There's no blueprint to navigate 'out of sample' for the Fed

Historical average effective tariff rate on imports



CPI inflation alongside survey- and market-based inflation expectations



NBC Economics and Strategy (data via Bloomberg, U.S. Census, University of Michigan) | Note: (LHS) 2025 figure is NBC April estimate. (RHS) TIPS data available starting in 1997 and reflects monthly trading averages



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