BEHIND THE HEADLINES
with **Ronald Temple**, Chief Market Strategist

16 MAY 2025

The Week at a Glance

- The United States and China announced a better-than-expected preliminary trade agreement but uncertainty regarding the path forward remains high with meaningful risk of renewed tensions.
- US headline Consumer Price Index (CPI) inflation eased slightly more than expected. Core inflation matched expectations, but higher tariffs could push core CPI above 4% by year-end. University of Michigan inflation expectations rose for the one-year and five- to ten-year horizons.
- US retail sales were mixed, with weakness in the control group after very strong March results.
- China's inflation remained undesirably low, with producer prices in deflation for the 31st month.
- Japan's GDP contracted more than forecast in Q1, mainly due to weak trade, but domestic demand and business investment were resilient.
- UK GDP grew slightly more than expected, driven by business investment and net exports.
- Next week, China is likely to report slowing industrial production growth but stable retail sales. Markets expect a small rate cut by China's central bank and higher UK and Japan inflation readings.

The Week Behind

Region	Indicator	Date	Period	Comp	Consensus	Actual	Prior Reading
United States	CPI	13 May	April	m-o-m	0.3%	0.2%	-0.1%
	CPI	13 May	April	y-o-y	2.4%	2.3%	2.4%
	Core CPI	13 May	April	m-o-m	0.3%	0.2%	0.1%
	Core CPI	13 May	April	y-o-y	2.8%	2.8%	2.8%
	University of Michigan Sentiment	16 May	May		53.0	50.8	52.2
China	CPI	9 May	April	y-o-y	-0.1%	-0.1%	-0.1%
	PPI	9 May	April	y-o-y	-2.8%	-2.7%	-2.5%
Japan	GDP	15 May	Q1-25	SA q-o-q	-0.3%	-0.7%	2.4%
United Kingdom	GDP	15 May	Q1-25	q-o-q	0.6%	0.7%	0.1%

The Week Ahead

Region	Indicator	Date	Period	Comp	Consensus	Actual	Prior Reading
China	Industrial Production	18 May	April	YTD y-o-y	5.7%		7.7%
	Retail Sales	18 May	April	YTD y-o-y	5.9%		5.9%
	1-Year Loan Prime Rate	19 May			3.00%		3.10%
	5-Year Loan Prime Rate	19 May			3.50%		3.60%
Japan	CPI	22 May	April	y-o-y	3.6%		3.6%
United Kingdom	CPI	21 May	April	y-o-y	3.3%		2.6%
	Core CPI	21 May	April	y-o-y	3.6%		3.4%
	Services CPI	21 May	April	y-o-y	4.8%		4.7%

The Week Behind

1. **The United States and China announced the outlines of a trade agreement that was materially better than expected.**

   The outlook: While agreement on the outlines of a deal is unquestionably positive, the deal reached in Geneva by no means represents the end of US-China trade friction. Reaching a final agreement is not guaranteed, and there are likely to be challenges in the months ahead that could lead to tariffs being ratcheted up again.

   Looking beyond the bilateral aspect of tariffs, China is also likely to be subject to additional sectoral tariffs that have not yet been imposed on semiconductors, pharmaceuticals, copper, and lumber.

   In the weeks ahead, additional bilateral deals are likely to be agreed upon with South Korea, India, and Japan, but reaching an agreement with the European Union is likely to be thornier, and a renegotiation of the United States-Mexico-Canada Agreement (USMCA), which covers over 30% of imported goods into the United States, could run into 2026.

   The details: The United States agreed to remove selected punitive tariffs against China, but it left in place the tariffs imposed for China's role in fentanyl trafficking as well as the tariffs in place before President Trump's second inauguration. Yale Budget Lab estimates that the weighted average tariff imposed on goods imports from China now stands at 33%. Other estimates range from 30% to 40% depending on the source, reflecting the ambiguity in terms of the outlines of the agreement.

   Overall, as a result of the US deals with the United Kingdom and China, the weighted average tariff on all goods imports into the United States has declined from an estimated 28% to about 18%. This still implies an increase of 15 percentage points in the weighted average tariff year-to-date (YTD) which implies 150 basis points (bps) of added core inflation pressure likely to be realized in 2025.

2. **US headline Consumer Price Index (CPI) inflation fell slightly more than expected while core CPI was in line with expectations.**

   The outlook: I expect April to be the cyclical trough for US core inflation as higher tariffs increase price pressures. I expect US core CPI to end 2025 above 4%, precluding the Federal Reserve from easing monetary policy despite market expectations for at least two 25-bps rate cuts in 2025.

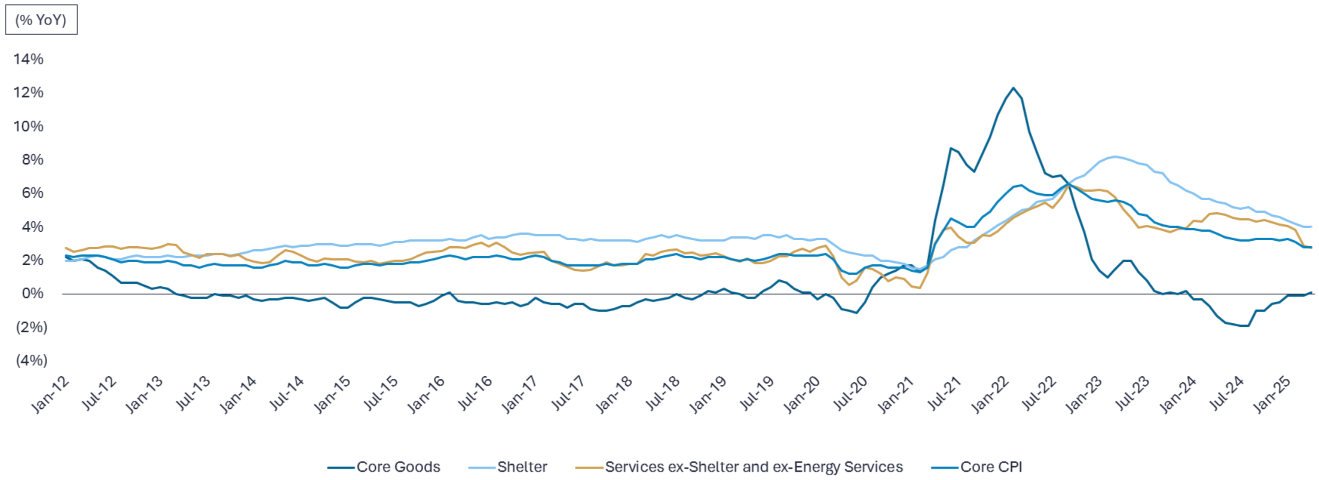
   The details: Headline CPI fell to 2.3% year-on-year (y-o-y) versus expectations for a 2.4% rate and 22 bps month-on-month (m-o-m) versus expectations for a 35-bps increase. Core CPI rose 2.8% y-o-y, in line with consensus expectations, while the m-o-m increase of 24 bps was slightly below the 30-bps consensus.

   Digging into the numbers, the lower-than-expected m-o-m figures for core CPI can largely be explained by lower airline fares and used car prices. The former likely reflects the swoon in confidence due to trade frictions that led to decreased air travel. Auto prices are likely to increase going forward due to tariffs on key inputs such as steel and aluminum as well as autos themselves.

   The graphic below shows the y-o-y change in core CPI as well as the three key categories within core CPI. The highest inflation remains for shelter (~44% of core CPI by weight) followed by services excluding shelter (~32% weight). Core goods inflation (~24% weight) remained near zero.

US Core CPI Inflation Is Likely to Reaccelerate after Hitting a Cyclical Trough in April

US Consumer Price Index Inflation for Key Categories



Source: Bureau of Labor Statistics, Haver Analytics
Note: As of April 2025
Core goods represent ~24% of core CPI, shelter represents ~44%, and services ex-shelter and ex-energy services represent ~32%.

LAZARD

April 2025 Core CPI Details	Weight in Core CPI	Contribution/ Detraction (bps)
Key Categories:		
Shelter (owners' equivalent rent, rent of primary residence, other accommodation)	44.3%	14.9
Services ex-Shelter	31.5%	7.0
Core goods	24.2%	1.5
Total Core CPI (from sum of key categories)		23.4
All Items Ex-Food and Energy (reported)		23.6
Contributors:		
Owners' equivalent rent of a primary residence	32.7%	11.6
Rent of Primary Residence	9.3%	3.1
Motor vehicle insurance	3.5%	2.2
Hospital and related services	2.8%	1.5
Detractors:		
Airline fares	1.1%	(3.1)
Used cars and trucks	3.0%	(1.6)
Source: Lazard, Bureau of Labor Statistics		
As of April 2025		

3. US retail sales delivered mixed messages.

The outlook: I expect retail sales growth to weaken as goods prices rise due to higher tariffs.

The details: Total retail sales were slightly better than expected at 0.1% in April, but that followed a very strong March when sales rose by 1.7%. In large part due to the strength in March, retail sales grew at an annualized rate of 7.3% in the last three months, but auto sales drove much of the March sales gain, as consumers rushed to buy cars before tariffs were implemented. In April, auto sales fell only 0.1% after rising 5.5% the prior month.

The control group which excludes auto dealers, building materials, food services, and gas stations disappointed with a decline of 0.2% in April after a gain of 0.5% in March.

April US Retail Sales	Consensus	Actual	Prior Month	Revised
Retail Sales m-o-m	0.0%	0.1%	1.4%	1.7%
Retail Sales ex-Auto m-o-m	0.3%	0.2%	0.8%	1.1%
Retail Sales ex-Auto and Gas m-o-m	0.3%	0.1%	0.5%	0.8%
Retail Sales Control Group	0.3%	-0.2%	0.4%	0.5%

Source: Bloomberg, U.S. Census Bureau

4. **The University of Michigan Sentiment Index slumped further in May despite expectations for a rebound.**

   The outlook: The University of Michigan Sentiment readings are closely linked with inflation expectations. As tariffs drive US core inflation higher, I expect sentiment readings to remain weak.

   The details: The Sentiment Index fell to 50.8 from 52.2 versus expectations for a rebound to 53.4. The Current Conditions Index fell to 57.6 from 59.8 versus expectations for a bounce to 59.9. The Expectations Index fell to 46.5 from 47.3 versus consensus of 48.6. Importantly, inflation expectations likely drove the moves with the 1-year inflation expectation rising further to 7.3% from 6.5% (6.5% expected) and the 5 – 10 year inflation expectation rising to 4.6% from 4.4%.

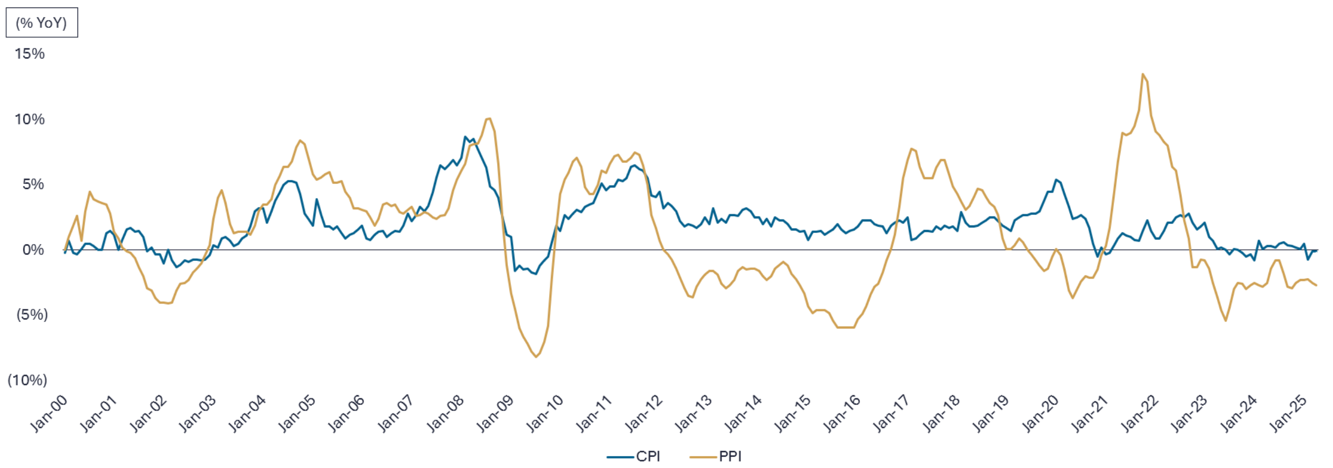
5. **China's CPI and Producer Price Index (PPI) inflation metrics were largely in line with expectations.**

   The outlook: China remains at significant risk of slipping into a deflationary trap. The PPI has been in deflation for the last 31 months while the CPI has been at or below 1% for the last 27 months. Given how highly leveraged the Chinese corporate sector is, deflation is very dangerous as falling producer prices make it harder for companies to continue servicing their debt. To date, there are no obvious signs of a significant deterioration in corporate credit quality, but the longer the situation persists, the greater the danger.

   The details: China's PPI fell by 2.7% y-o-y versus the consensus expectation for a decline of 2.8% and the prior month's decline of 2.5%. The worsening of PPI deflation largely resulted from lower energy prices, arguably a good form of deflation as it is a falling input price. CPI fell 0.1%, as expected, in line with the prior month's result. Within the CPI, food inflation increased but was offset by weaker fuel and core goods prices.

China Inflation Is Undesirably Low with PPI Deflation for 31 Months and CPI ≤1% for 27 Months

China CPI and PPI



LAZARD

Source: Bloomberg, National Bureau of Statistics
Note: As of April 2025

6. **Japan's Q1-25 GDP was worse than expected, shrinking at an annualized rate of 0.7% quarter-on-quarter (q-o-q).**

   The outlook: My optimism regarding Japanese equities is not premised on accelerating growth. Given Japan's seemingly insurmountable structurally demographic challenges, GDP growth is likely to be limited for years to come. Instead, the positive story for Japanese equities is premised on capital optimization, sustained inflation due to labor shortages, and increased investment in productivity-increasing capex to address the headwinds from an inadequate supply of workers.

   The details: Japan's GDP contracted at an annualized rate of 0.7% q-o-q in Q1-25 versus consensus expectations for a decline of 0.3%. The biggest drag was net trade which detracted 3.3 percentage points from the annualized figure as imports rebounded from the weak prior year period. The consensus expectation had been for a -0.5% q-o-q unannualized contribution to GDP from net exports versus the 0.8% decline that occurred. Private domestic demand remained firm, contributing 2.6 percentage points to growth. Importantly, as labor shortages continued, capex accelerated to a growth rate of 5.8% q-o-q annualized from 3.4% in the prior quarter.

Japan Q1-25 GDP	Consensus	Actual	Prior Reading	Revised
GDP Seasonally Adjusted q-o-q	-0.1%	-0.2%	0.6%	
GDP Annualized Seasonally Adjusted q-o-q	-0.3%	-0.7%	2.2%	2.4%
GDP Private Consumption q-o-q	0.1%	0.0%	0.0%	0.1%
GDP Business Spending q-o-q	0.6%	1.4%	0.6%	0.8%
Inventory Contribution % GDP	0.2%	0.3%	-0.3%	
Net Exports Contribution % GDP	-0.5%	-0.8%	0.7%	

Source: Bloomberg, Economic and Social Research Institute of Japan

7. **UK Q1-25 GDP rose slightly more than expected at a 0.7% q-o-q pace (not annualized).**

   The outlook: The consensus expectation for GDP growth for 2025 of 0.9% could nudge a bit higher on the back of this quarter's results, but I do not expect a material increase.

The details: UK GDP rose 0.7% q-o-q versus the consensus expectation for a 0.6% increase. On a y-o-y basis, growth of 1.3% was also a whisker above the 1.2% consensus. Strong business investment and an increase in net exports drove the better figures while private consumption and government spending were weaker than expected.

UK Q1-25 GDP	Consensus	Actual	Prior Reading
GDP Seasonally Adjusted q-o-q	0.6%	0.7%	0.1%
GDP y-o-y	1.2%	1.3%	1.5%
Private Consumption q-o-q	0.5%	0.2%	0.1%
Government Spending q-o-q	0.5%	-0.5%	0.5%
Total Business Investment q-o-q	0.4%	5.9%	-1.9%
Total Business Investment y-o-y	2.3%	8.1%	1.8%

Source: Bloomberg, UK Office for National Statistics

The Week Ahead

1. **Preliminary May PMIs across major developed economies are expected on 22 May.**

   The outlook: US PMIs are expected to be stable to slightly weaker, while PMIs for the Eurozone, France, Germany, and United Kingdom are expected to be stable-to-slightly stronger. No major shifts are currently forecast based on consensus expectations.

2. **China will release its monthly economic data with industrial production growth expected to decelerate, while other metrics are expected to be stable.**

   The outlook: China will release its monthly batch of economic data. Most figures are expected to be similar to those of the prior month with the exception of a deceleration of industrial production growth. Given the better-than-expected export figures for April, there could be room for an upside surprise in industrial production, but investors should expect weakening moving forward as higher tariffs begin to bite into foreign demand for Chinese manufactured goods.

April China Economic Data		Consensus	Prior
Industrial Production	y-o-y	5.9%	7.7%
	YTD y-o-y	6.4%	6.5%
Retail Sales	y-o-y	6.0%	5.9%
	YTD y-o-y	5.0%	4.6%
Fixed Asset Investment	YTD y-o-y	4.3%	4.2%
Property Investment	YTD y-o-y	-9.9%	-9.9%
Residential Property Sales	YTD y-o-y	*	-0.4%
New Home Prices	m-o-m	*	-0.08%
Used Home Prices	m-o-m	*	-0.23%

Source: Bloomberg, National Bureau of Statistics
* No consensus estimate available on Bloomberg.

3. **The People's Bank of China (PBoC) is expected to reduce prime lending rates.**

   The outlook: The PBoC is expected to reduce the 1-Year Loan Prime Rate (LPR) and 5-Year LPR by 10 bps to 3.00% and 3.50%, respectively. The 1-Year LPR is the basis for commercial lending while the 5-Year LPR is the basis for residential mortgage rates. While the decrease is very small, it is yet another signal that the central government is still working to stimulate economic activity, albeit in a suboptimal and insufficient manner.

4. **Japan's CPI inflation is expected to be stable at a headline level but accelerate for core metrics.**

   The outlook: The ongoing normalization of the Japanese economy after decades of no inflation is likely to continue in April with inflation clocking in at or above 3% on all key metrics.

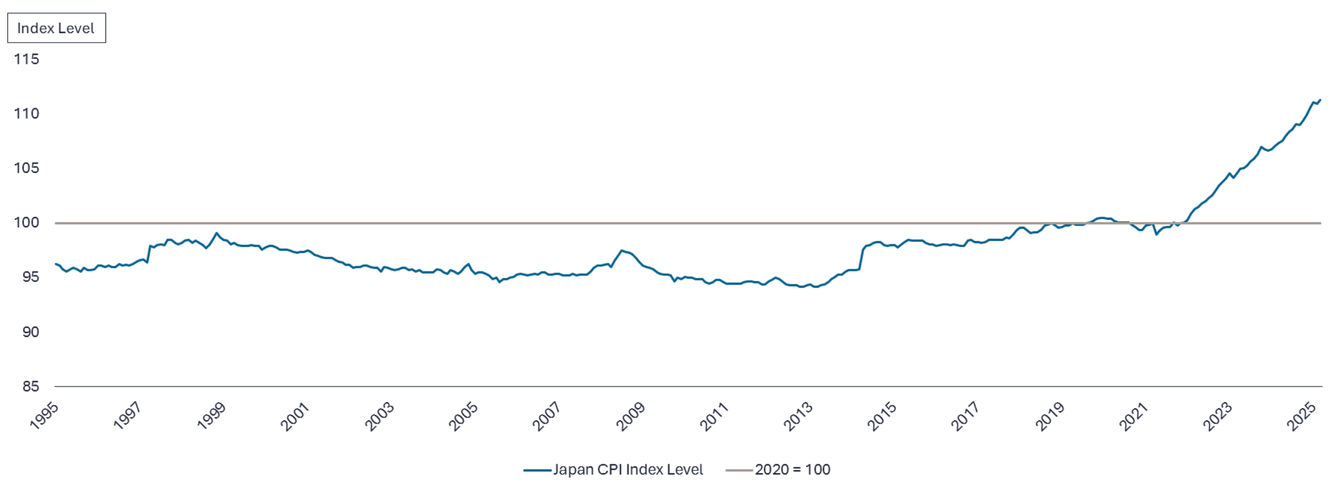
Japan April CPI	Consensus	Prior Reading
Headline y-o-y	3.6%	3.6%
CPI y-o-y ex-fresh food (core)	3.5%	3.2%
CPI y-o-y ex-fresh food and energy (core-core)	3.0%	2.9%

Source: Bloomberg, Japan Ministry of Internal Affairs and Communications

Importantly, inflation is becoming sufficiently entrenched that no single month will materially change the narrative, as consumer prices have now increased by over 11% in the last 3.5 years.

After Decades of Price Stability, Inflation Took Off since Late 2021

Japan General Consumer Price Index (SA, 2020 = 100)



LAZARD

Source: Japan Ministry of Internal Affairs and Communications, Haver Analytics
Note: As of March 2025

5. **UK CPI is expected to accelerate in the April report.**

   The outlook: Multiple factors are likely to lift inflation well above the levels of recent months. A combination of large increases in energy and water bills as well as changes to vehicle excise duties, social housing costs, air passenger duties, and a later-than-usual Easter could all raise the m-o-m and y-o-y CPI readings. Additionally, changes in the National Living Wage and National Insurance Contributions could add to the inflationary momentum in April. The key question for the Bank of England will be whether it chooses to look through the step change in prices in April under the assumption that underlying disinflationary momentum remains intact.

UK April CPI

	Consensus	Prior Reading
Headline m-o-m	1.1%	0.3%
Headline y-o-y	3.3%	2.6%
Core y-o-y	3.6%	3.4%
Services y-o-y	4.8%	4.7%

Source: Bloomberg, UK Office for National Statistics

6. UK Retail Sales are expected to be stable on a m-o-m basis but stronger y-o-y.

The outlook: Some softening of retail sales would be unsurprising given that Q1-25 sales rose at an annual rate of 6.7%. Given the crosscurrents noted above for UK GDP, a print that matches March's levels would be a welcome data point.

April UK Retail Sales	Consensus	Prior Month
Retail Sales including Auto Fuel m-o-m	0.4%	0.4%
Retail Sales including Auto Fuel y-o-y	4.6%	2.6%
Retail Sales excluding Auto Fuel m-o-m	0.3%	0.5%
Retail Sales excluding Auto Fuel y-o-y	4.4%	3.3%

Source: Bloomberg, UK Office for National Statistics

Important Information

This content represents the views of the author, and its conclusions may vary from those held elsewhere within Lazard.

These materials have been prepared by Lazard for general informational purposes only on a non-reliance basis, and they are not intended to be, and should not be construed as, financial, legal, or other advice.

In preparing these materials, Lazard has assumed and relied upon the accuracy and completeness of any publicly available information and of any other information made available to Lazard by any third parties, and Lazard has not assumed any responsibility for any independent verification of any of such information. These materials are based upon economic, monetary, market, and other conditions as in effect on, and the information available to Lazard as of, the date hereof, unless indicated otherwise. Subsequent developments may affect the information set out in this document, and Lazard assumes no responsibility for updating or revising these materials.

These materials may include certain statements regarding future conditions and events. These statements and the conditions and events they describe are inherently subject to uncertainty, and there can be no assurance that any of the future conditions or events described in these materials will be realized. In fact, actual future conditions and events may differ materially from what is described in these materials. Lazard assumes no responsibility for the realization (or lack of realization) of any future conditions or events described in these materials.

No liability whatsoever is accepted, and no representation, warranty, or undertaking, express or implied, is or will be made by Lazard or any of its affiliates for any information contained herein or for any errors, omissions, or misstatements herein. Neither Lazard nor any of its affiliates makes or has authorized to be made any representations or warranties (express or implied) in relation to the matters contained herein or as to the truth, accuracy, or completeness of this document.

Nothing herein shall constitute a commitment or undertaking on the part of Lazard to provide any service. Lazard shall have no duties or obligations to you in respect of these materials or other advice provided to you, except to the extent specifically set forth in an engagement or other written agreement, if any, that is entered into by Lazard and you.

By accepting this document, each recipient agrees to be expressly bound by the foregoing limitations.