

### Inflation Fell in March, but Tariff Shocks May Reverse the Trend

**CPI slows, though trade policy clouds the outlook.** Headline CPI declined 0.1 percent month over month in March—the first monthly decrease since 2020—easing the year over year rate to 2.4 percent. Core inflation edged down to 2.8 percent year over year, its lowest level since March 2021, further tapering price pressures. Nevertheless, ongoing trade policy developments may threaten this progress, as elevated import barriers that took effect in April could disrupt economic momentum and price stability. Although the temporary hold on reprisal tariffs is expected to reduce the immediate impact, the average effective tariff rate remains above 25 percent—far exceeding the pre-2025 norm of roughly 2.5 percent. While subject to change, the resulting cost pressures could erode business confidence and weigh on consumer spending as firms adjust pricing strategies.

**Stabilizing prices reflect shift to essential goods.** Cooling inflation in March may signal a moderation in discretionary consumption. Recreation services, hotel stays, airline fares and used vehicle prices all recorded slower growth last month, underscoring reduced pricing power in non-essential categories. In contrast, the food index rose by 3.0 percent year over year, driven by increases in restaurant and grocery prices. While not severe, the steady rise in food costs reflects a further pull on household spending toward daily needs. This evolving demand environment favors grocery-anchored and necessity-based retail formats. Continued cost-sensitivity is also expected to uphold the tenant mix shift toward value-oriented and discount retailers.

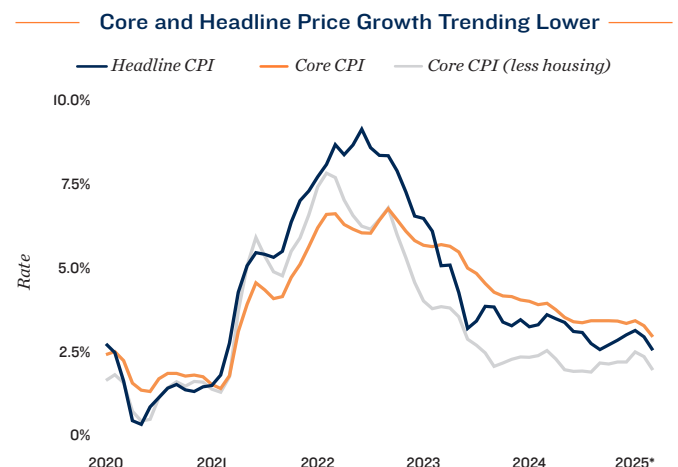
**Evolving cost dynamics influence multifamily demand.** Owners' Equivalent Rent rose by 0.4 percent on the month, while the annual rate held at 4.4 percent, which is its lowest level since early 2022. Although rent growth as measured for CPI remains above the overall inflation metric, easing prices across other segments should bolster leasing momentum. Slower economic growth tied to elevated trade barriers may pose headwinds, however, particularly for lower-income renters facing financial strain. At the same time, cost-conscious behavior — renters seeking affordability and higher-income households delaying trading up — should reinforce demand for middle-tier units. A thinning construction pipeline will also limit new options at the upper end of the market, maintaining occupancy in Class A properties.

**Tariff pause incentivizes short-term inventory build.** Apparel and furniture prices increased at a faster pace in March, potentially reflecting supply-side repositioning and a modest pull-forward of demand ahead of anticipated trade disruptions. The 90-day tariff suspension may give select retailers an opportunity to front-load shipments and mitigate future cost pressures. The resulting inventory accumulation may spur short-term demand for warehouse and distribution space, especially near major ports and logistics hubs.

**Auto tariffs keep pressure on supply chains.** New vehicle prices edged up slightly in March but remained broadly stable, suggesting inventory levels and pricing dynamics have yet to face significant disruption. Even so, the 25 percent tariffs on imported auto parts, steel and aluminum, may generate additional pressure on automakers and suppliers. Many manufacturers are expected to adopt a wait-and-see approach, as trade-related uncertainty continues to delay capital investment. Over time, reshoring and onshoring strategies could gain traction—particularly in regions with established automotive infrastructure—but the timing and scale of any shift remain highly contingent on future policy developments and expectations.

**2.4%** Increase in Headline CPI Year Over Year

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



\* Through April

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



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