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CONSUMER PRICES

Inflation slowed during pause in war

Picture improved in June with the fall of oil prices

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American consumers got some relief in June after months of soaring prices. But the resurgence of the war with Iran means that progress could be short-lived.

Note

Overall consumer prices were up 3.5% in June from a year earlier, the Bureau of Labor Statistics said Tuesday. That represented a cooldown from May, when annual inflation hit 4.2%, a three-year high. Prices actually fell 0.4% from May to June, the largest outright decline since 2020.

The improving inflation picture was largely the result of tumbling oil prices. But the so-called core inflation measure, which strips out the volatile food and energy categories to give a better sense of the underlying trend, also showed improvement. Core prices were up 2.6 % from a year earlier, down from a 2.9% annual gain in May. On a monthly basis, core prices were flat.

The data was a welcome sign that the surge in inflation during the spring — which followed the U.S.-Israeli attack on Iran and the subsequent near-complete closure of the Strait of Hormuz — subsided last month along with oil prices. Retail gasoline prices, which topped $4.50 a gallon nationally in May, have fallen back below $4 in recent weeks, and inflation has also eased in other energy-intensive categories, such as airfares.

But oil prices have shot back up in recent days as the ceasefire with Iran has ended. That could once again ripple through the U.S. economy.

President Donald Trump claimed on Tuesday his economic agenda was working and blamed the earlier rise in prices on his predecessor, President Joe Biden, even though prices have risen recently because of Trump's war.

"Prices are coming way down, and we're doing a great job. And remember that for the midterms," he told reporters in the Oval Office.

"The more oil stays elevated, the more you get second-round effects on things like airlines and transportation and even food prices," said Michael Gapen, chief U.S. economist at Morgan Stanley. "I do think it's a real risk."

Still, Gapen said the June data was a positive sign that inflation could continue to cool in the second half of the year. And falling gas prices, however short-lived, are welcome news for consumers burned by years of higher than average inflation. Annual wage growth narrowly outpaced price increases in June after two months of inflation-adjusted declines. The longer-run question is what will happen to prices beyond the pump.

On that, the June data offered some encouraging signs. Grocery prices rose a relatively modest 0.2% in June, and shelter inflation — the largest category in the consumer price index — continued to cool.

Officials at the Federal Reserve are watching the core figure and other measures of underlying inflation for signs that the effects of the war are spilling over into a broader array of prices. There has been little sign of that happening so far.

"There was a lot of fear back in April and May about how disruptive this energy price shock and lack of supply would be to global supply chains, and we just haven't seen that," said Blerina Uruci, chief U.S. economist at T. Rowe Price. She noted that the deceleration in inflation in June was broad-based, showing up in services as well as goods.

Still, policymakers are wary of complacency after five years of inflation being too high for their liking. And the war with Iran is not the only source of price pressures concerning the Fed. Price gains tied to the boom in artificial intelligence have also stoked inflation in recent months. Inflation across the services sector, such as transportation and personal care, has stayed sticky, too. And research from economists at the New York Fed suggested last week that the tariffs President Donald Trump imposed last year are still filtering their way into consumer prices.

Perhaps the most encouraging news in the June report was that inflation cooled in goods other than energy, Gapen said. That is a sign that the effect of tariffs is fading.

Fed officials gather at the end of the month for their next policy meeting, where they will discuss the merits of raising interest rates to bring inflation back under control. Christopher Waller, a Fed governor, said in a speech Monday that the central bank might soon have to raise interest rates if inflation data came in higher than expected.

Instead, the June data was better than most forecasters predicted, taking pressure off the Fed to raise rates at its next meeting.

On Tuesday, Fed chair Kevin Warsh faced questions from members of the House Financial Services Committee about his outlook.

Warsh told lawmakers the central bank will set policy "right" such that "the inflation surge of the last five years will be a thing of the past."

"The members of our committee have no tolerance for persistently elevated inflation," Warsh said. "And we share a resolute commitment to restoring price stability."