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ECONOMIC INDEX

Prices surge as tariffs up costs

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WASHINGTON >> U.S. wholesale inflation surged unexpectedly last month, signaling that President Donald Trump's sweeping taxes on imports are pushing costs up and that higher prices for consumers may be on the way.

The Labor Department reported Thursday that its producer price index — which measures inflation before it hits consumers — rose 0.9% last month from June, biggest jump in more than three years. Compared with a year earlier, wholesale prices rose 3.3%.

The numbers were much higher than economists had expected.

Prices rose faster for producers than consumers last month, suggesting that U.S. importers may, for now, be eating the cost of Trump's tariffs rather than passing them on to customers.

That may not last.

"It will only be a matter of time before producers pass their higher tariff-related costs onto the backs of inflation-weary consumers," wrote Christopher Rupkey, chief economist at fwdbonds, a financial markets research firm.

Excluding volatile food and energy prices, so-called core producer prices rose 0.9% from June, biggest month-over-month jump since March 2022. Compared with a year ago, core wholesale prices rose 3.7% after posting a 2.6% year-over-year jump in June.

Wholesale food prices rose 1.4% from June, led by a 38.9% surge in vegetable prices. The price of home electronic equipment gained 5% from June. Both are heavily imported in the U.S.

But some aspects of Thursday's producer price report were puzzling, including a big jump in profit margins at retailers and wholesalers. Economist Stephen Brown at Capital Economics found the increase "to put it lightly, counterintuitive given the anecdotal evidence that firms are absorbing the lion's share of tariff increases in margins."

Trump's tariffs have generated considerable uncertainty about the U.S. economy, the world's largest, which could explain some seemingly contradictory trends. Trump has negotiated trade agreements with several major U.S. trading partners, including the European Union and Japan. But the details have not been published, leaving businesses uncertain about where tariff rates will end up and therefore whether and how they should adjust their own prices.

The fallout from the tariffs has also been delayed because many importers stockpiled products before the taxes took effect. Those inventories are diminishing, however.

What's more, the U.S. courts are hearing a challenge to Trump's most sweeping tariffs and could strike them down.

The wholesale inflation report two days after the Labor Department reported that consumer prices rose 2.7% last month from July 2024, same as the previous month and up from a post-pandemic low of 2.3% in April. Core consumer prices rose 3.1%, up from 2.9% in June. Both figures are above the Federal Reserve's 2% target.

The new consumer price numbers suggest that slowing rent increases and cheaper gas are partly offsetting the impacts of Trump's tariffs. Many businesses are also likely still absorbing much of the cost of the duties instead of passing them along to customers via higher prices.

The producer and consumer inflation numbers are issued by the Labor Department's Bureau of Labor Statistics, which is already in Trump crosshairs.

After the BLS issued a disappointing jobs report for July, Trump fired the director of the BLS, groundlessly accusing the bureau of rigging the numbers for political reasons. Trump then nominated a partisan idealogue to replace her, raising fears of political interference in economic data that investors, policymakers, businesses and the Federal Reserve rely on to make decisions.

Thursday's report is likely to complicate decisions for the Fed. After an ominous July jobs report —which also showed that hiring was much weaker than originally reported in May and June — the central bank was widely expected to cut interest rates at its meeting next month in a bid to recharge hiring.

The Fed has drawn Trump's ire for not cutting interest rates already. Under Chair Jerome Powell, it had been delaying rate cuts until better understood the impact of Trump's tariffs on inflation. "This report is a strong validation of the Fed's wait-and-see stance on policy changes," Carl Weinberg, chief economist at High Frequency Economics, wrote in a commentary Thursday. "It will mean a markdown of market expectations for a September rate cut."

Wholesale prices can offer an early look at where consumer inflation might be headed. Economists also watch it because some of its components, notably measures of health care and financial services, flow into the Federal Reserve's preferred inflation gauge — the personal consumption expenditures, or PCE, index.

The PCE inflation numbers for July are due out Aug. 29.