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Households may notice price increases from his tariffs long before official statistics catch up.



POLITICAL ECONOMICS

Trump's Biggest Economic Threat Is Inflation

You can't go wrong assuming President Trump is trying to create a diversion. So it is with last week's kerfuffle over jobs data from the Bureau of Labor Statistics after a round of embarrassing numbers. Unemployment isn't the threat to his grand tariff project. Inflation is the killer, and it may prove to be a silent one.

Americans have learned more since last Friday than they ever wanted to about the BLS. Mr. Trump fired the economist who ran this section of the Labor Department, Erika McEntarfer, after BLS released a jobs report purporting to disclose an unseemly drop in manufacturing employment last month.

Mr. Trump says the BLS routinely politicizes its data releases to help Democrats. The real problem is that the BLS and other government agencies now routinely struggle to collect any data at all—as my colleague Allysia Finley noted earlier this week. Whatever we know about an economy as dynamic and complex as America's, we learn through surveys and extrapolation. These are hostage first to bureaucrats' sagacity in asking the right questions, and second to households' and businesses' willingness to answer—all of which increasingly are breaking down.

Which brings us to inflation. This is the great vulnerability in Mr. Trump's trade ambitions. The only thing he has an unambiguous electoral mandate to do is to reverse the slide in living standards from Biden-era inflation. Yet his tariff policies work, if they work at all, by increasing prices and suppressing consumption.

Hence the relief among Mr. Trump's supporters that inflation data so far are subdued. The most recent monthly reading of the consumer price index reported higher-than-desirable inflation year to year, especially the 2.7% increase in prices this June compared with a year ago. But the month-to-month increase, at 0.3%, wasn't so great as to raise alarms. That counts as a win.

Part of the explanation is that many of Mr. Trump's biggest tariff threats haven't been implemented (yet). But there's another possibility, which should concern the president: Official inflation data may not capture the consequences of the tariffs.

Mr. Trump's first problem is the definition at use. Economists speaking of inflation have prices' rate of change in a given period in mind. Voters care more about the level of prices they must pay. The inflation

rate may slow, but households keep feeling the burn up until the moment their wages rise to match the new price level.

This is why it's economically correct but politically irrelevant to say that Mr. Trump's tariffs won't prove inflationary because at worst they'll trigger a one-off bump in the price level. A single cost increase still hits voters' wallets. If Mr. Trump hasn't boosted the standard of living (as represented by real wages) before the next election, Republicans will pay.

Worse, inflation data are as prone to error as any other economic statistic. The more popular inflation measure, the consumer price index, is based on a basket of goods meant to represent the typical household. But there's no such thing as "typical" in the real world. Two families that live next door to each other can have wildly varying experiences of

inflation based on what they normally buy. The neighbor who loves coffee or needs a new car in the next year will feel the sting of protectionism more.

Complicating matters, the CPI isn't the end-all-be-all of inflation data. There are other measures. The Federal Reserve prefers the personal consumption expenditure index. The PCE will tend to understate any inflationary consequences of Mr. Trump's tariffs, economist Mickey Levy tells me, because this measure adapts to households' substitutions as their preferred products become more expensive. This statistic might still show muted inflation but mask households' sense that they're worse off since they can't afford the brands they'd normally buy.

A much less heralded inflation measure could prove the most consequential for Mr. Trump's trade politics: the producer price index. This captures prices for the components and materials businesses use, many of which are imports hit hard by his tariffs. Key to the president's claim that someone other than consumers will pay for the tariffs is the assumption that businesses will eat the additional costs. But if escalating producer prices stymie new investment, voters will notice soon enough as wage growth stalls. By the way, Mr. Trump may get little warning in the data before he's hit political disaster because the PPI series is prone to the same survey problems as most other government statistics.

It's enough to make you suspect the single most important data point about trade has been in front of our eyes the whole time—that for decades successive administrations of varying ideologies tried to reduce trade barriers. Mr. Trump's supporters present this as an elite conspiracy, but maybe, just maybe, it's a signal that free trade actually delivered economic gains for many households. The president has chosen to upset that consensus. Unfortunately for him, he probably won't get clear economic data until the midterm election results.

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