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Inflation Picks Up To 2.7% As Tariffs Seep In

Economists are split on how much the president's trade war will affect prices

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Inflation picked up in June, a potential sign that companies are starting to pass tariff costs on to consumers.

Consumer prices in June were up 2.7% from a year earlier, the Labor Department said Tuesday, accelerating from May's 2.4% pace. That was in line with the expectations of economists surveyed by The Wall Street Journal.

Core inflation, which exclude volatile food and energy prices, was 2.9%, also in line with forecasts. Prices of furniture, toys and clothes— items that tend to be sensitive to tariffs—posted larger increases in June. At the same time, car prices unexpectedly fell.

Consumer prices rose 0.3% in June compared with May, the largest monthly gain since January and a setback for White House officials who have said in recent weeks there isn't any meaningful inflation. But core prices rose 0.23%, at the middle of the range of monthly price increases over the previous year.

The S& P 500 and the Dow Jones Industrial Average closed lower. The Nasdaq composite rose, hitting a new high.

"We are seeing inflation beginning to pick up," said Sarah House, a senior economist at Wells Fargo. Still, the numbers aren't a "worst-case scenario" because tariffs are so far only pushing up prices in a handful of goods categories and haven't spread over to services, she said.

One possible explanation for the monthly drop in car prices, House said: Consumers moved planned purchases ahead to avoid expected tariffs, leading to lower demand and lower prices in June.

Economists generally agree that tariffs raise prices and hurt economic growth but disagree over how big the impact of the White House tariffs will be, or when any price increases might start to show up. Many companies rushed to fill up their inventories by buying goods before tariffs took effect, making it easier for them to hold off on price increases in the spring.

– Note

The June reading does little to settle that key debate among Federal Reserve policymakers about how President Trump's tariffs will affect prices in the coming months.

Those who worry that tariffs could drive meaningful price increases later this year are likely to have seen enough in the data to maintain that view, especially since many retailers may still be delaying price increases.

For this camp, the June numbers simply make July and August data even more critical to watch. *

Conversely, officials who believe tariffs won't spark sustained inflation—because the economy and corporate pricing power aren't strong enough to support broad price increases even if some goods prices are rising—could see their views validated by the relatively modest rise in core prices last month.

This uncertainty explains why Fed Chair Jerome Powell recently signaled a slightly more open stance toward interest-rate cuts than seemed possible this spring. Back then, Trump announced evenlarger tariff increases, and those threatened to push up prices and weaken economic growth—a challenging combi-nation for monetary policy.

In a post on social media, Trump, a Republican, urged the Fed to lower interest rates.

"Fed should cut Rates by 3 Points," he wrote. "Very Low Inflation."

If tariffs prove not to be inflationary, it will be because consumers don't have the wherewithal to absorb higher costs. One possible sign of this in Tuesday's report came from a pullback on travel spending. Hotel and motel prices fell 3.6% in June compared with May on a seasonally adjusted basis, a much steeper drop than in prior months. Airline fares fell slightly by 0.1%. Some econo-mists had expected airfare to rise in June after dropping in April and May.

"Demand has clearly softened," said Richard Moody, chief economist at Regions Financial. Slower price increases for services such as rent helped keep overall inflation low despite rising goods prices.

Goods inflation rose in June partly because many retailers didn't build up large stockpiles ahead of tariffs, leaving them little choice but to raise prices on imported items, said Samuel Tombs, chief U.S. economist at Pantheon Macroeconomics.

"I think this settles the argument over whether tariffs boost inflation or not," Tombs said.

Tariff policy remains uncertain. The Trump administration has been ramping up tariff threats against the biggest U.S. trade partners in recent days. On Saturday, Trump said the U.S. would start charging 30% levies on goods from Mexico and the European Union starting Aug. 1.

On Monday, he threatened 100% "secondary tariffs" on Russia if it didn't reach a peace deal with Ukraine.

Before those recent announcements, Powell had indicated inflation risks might take longer to materialize and could prove less severe than initially feared. This assessment creates room for the Fed to cut rates as soon as September if labor markets continue softening or if inflation data is better than feared.

Goldman Sachs economists estimate that U.S. consumers will end up paying 70% of tariffs' direct costs.

Walmart said in May that it would be forced to raise prices in response to tariffs. Clothing brand Ralph Lauren has also said it was considering price increases.

Chicago Fed President Austan Goolsbee said Friday that continued tariff threats make it harder to figure out where inflation is headed.

"The more we keep adding things to the mix that make it hard to figure out—'Are prices going to be rising or not?'—the more it's just throwing more dirt back in the air," Goolsbee said.