7-16-25

WSJ Print Edition

The June inflation bump probably takes a July Fed cut off the table.

Trump Tariffs Hit Consumer Prices

REVIEW & OUTLOOK

President Trump insists there is "no inflation" as he bludgeons the Federal Reserve to cut interest rates. But denying inflation reality won't make it go away. His tariffs are making it harder for the central bank to do what he wants, as last month's rise in the consumerprice index shows.

The Labor Department's consumer-price report Tuesday showed inflation ticked up in June to 0.3% or 2.7% in the last year. Real average hourly earnings fell 0.1% as inflation eroded wage gains. Real average weekly earnings fell 0.4% and 0.6% for production- level workers as hours of work declined, perhaps because of a slowing economy and labor market.

Let's stipulate that tariffs don't cause inflation, which is an increase in the general price level. Inflation occurs when there is too much money chasing too few goods and is usually the result of monetary-policy mistakes.

But tariffs are taxes, and they do raise prices on the goods on which they're applied. Those price increases may be a one-time event, depending on the tariff and how supply-chains are affected. But Americans who experience those rising prices will still notice the decline in their purchasing power.

And that's what they're seeing in the June inflation report. Price increases were broadbased, and especially in goods that the U.S. imports. Think toys (1.8%), paper products (1.4%) and appliances (1.9%). The latter was the biggest increase since August 2020.

Food prices rose 0.3% despite a 7.4% decline in egg prices. One culprit was fresh fruit and vegetables (1%), the biggest increase in more than a year. About 60% of fresh fruit and 35% of fresh vegetables are imported.

Slapping tariffs on cherries from Chile and bananas from Guatemala won't cause more of them to be grown stateside, especially when farmers can't find workers. Prices for coffee— almost all of which is imported—rose 2.2%. Your cup of Joe will get even more expensive if Mr. Trump follows through on his threat to impose a 50% tariff on Brazil.

Carbonated drink prices notably rose 1.7%. Coca-Cola warned in February that it imports aluminum for cans from Canada, which would be subject to 25% tariffs (now 50%). While the company said it might shift to using more plastic bottles, this strategy has limits. The U. S. also imports large amounts of plastic. Imports make up only 11% of U.S. consumer spending, but domestic producers will also take advantage of the tariffs to raise prices. This is what happened after Mr. Trump slapped tariffs on washing machines in his first term. While imports fell by a third in the year after the tariffs took effect, prices rose 12% for washers and dryers.

Trump advisers say the President's trade agenda is focused on helping Main Street, not Wall Street. But the irony is that the tariffs hurt Main Street while the market volatility caused by his whipsawing tariff threats has been a boon to Wall Street. JPMorgan's equity trading revenue hit a second-quarter record on Tuesday.

The Trump team also overlooks that tariff effects will vary by industry and the ability of consumers and business to substitute for lowercost alternatives. The fact that the June report doesn't show inflation in some tariffed goods like autos doesn't mean prices won't increase. Tariffs could have a long and variable lag, to adapt Milton Friedman's famous line about monetary policy.

But tariff effects are clearly starting to appear in the goods that people buy and over time could bleed into services, where inflation is somewhat sticky. Prices for medical services (0.6%) and personal care services (0.6%) jumped last month. Dry cleaners, hospitals and auto-repair shops also rely on imported goods.

All of this will influence the Federal Reserve, which is considering the relationship between tariffs and inflation as it decides when and how much to cut interest rates. Mr. Trump has been bashing Fed Chairman Jerome Powell as "too late," but the June report vindicates the Fed chief's caution. It also probably takes a rate cut in July off the table.

Americans elected President Trump to increase real incomes and reduce inflation, yet so far he isn't succeeding at either. Tariffs aren't helping either mission.