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Consumer prices in August show a Fed rate cut isn't an easy call.

Sorry, Inflation Still Lives

REVIEW & OUTLOOK

Our friends on Wall Street and in Washington keep saying that inflation is vanquished as they hope—plead—for lower interest rates. Yet the economic data aren't bearing out their optimism, as the Labor Department's consumer price report for August revealed on Thursday.

Consumer prices climbed 0.4% in August and 2.9% over the past year, both the most since January. Price increases last month were broad-based, hitting food consumed at home (0.6%), alcohol (0.6%), children's shoes (1.5%), clothing (0.5%), new cars (0.3%), used cars (1.0%), housing (0.4%), hotels (2.6%), vehicle repair (5.0%), air fares (5.9%) and more.

The index for so-called core prices (less volatile food and energy) wasn't more reassuring. Those prices rose 0.3% in the month, or 3.1% over the last 12 months. The fall in inflation from March through May turned into a modest re-acceleration in the summer.

President Trump's tariffs are clearly driving up some prices, especially in food and goods. Imports account for about 20% of food and beverages in the U.S. Goods prices had been quiescent in recent months while services inflation was high, but prices rose for both last month.

Businesses report that they've run through inventory they stockpiled before Mr. Trump's tariff barrage and are starting to pass on their higher costs to customers. Auto-repair shops are getting whacked by Mr. Trump's 25% tariff on parts and 50% on steel and aluminum. The tariffs could also have indirect effects. Used cars prices are increasing because the supply has shrunk as people hold onto their jalopies longer because they can't afford new cars.

At the same time, Mr. Trump's restrictive immigration policies are contributing to labor shortages, which may be pushing up wages and prices in industries like agriculture, construction and hospitality. One "agribusiness reported that wages rose 8 to 10 percent annually, yet turnover remained high," a Federal Reserve business survey noted last week.

Buoyant consumer spending, rising prices, and frothy stock valuations suggest that current interest rates aren't all that restrictive. While many lower and middle-income Americans are stretched, ebullient markets may in part be fueling more spending by the affluent and creating a wealth effect.

A BlackRock portfolio manager told Bloomberg News last week that a boost to wealth from soaring asset prices "is supporting consumption and that is what drives the economy more than anything else." What's fueling stock prices? In part expectations that the Fed may cut rates sharply this fall because of signs the labor market is weakening.

All of which makes next week's meeting of the Federal Open Market Committee more difficult than Wall Street hopes. A 25 basis-point cut is probably in the bag after last week's labor report showed a summer stall in job creation. But the Fed has to worry about persistent inflation above its 2% target. Easier money may help Wall Street, but it won't counter the economic policy mistakes that are to blame for Main Street's malaise.

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