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The Trump tariff story has given way to an energy crisis from the war.

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Inflation Hits Three-Year High

Consumer prices rise 4.2% as the U.S.'s war with Iran drives energy costs higher

BY HARRIET TORRY

Year-over-year inflation hit a three-year high of 4.2% in May, as the Iran war pushed energy prices higher and the conflict's toll on consumers intensified.

The rise in the consumer price index, as reported by the Labor Department on Wednesday, was in line with expectations and accelerated from 3.8% the previous month. It also was the highest year-over-year reading since April 2023 and a sign that high energy costs stemming from the U.S.-Israeli attack on Iran are continuing to push up price pressures.

Beyond the gas pump, though, there were fewer signs of quickly rising prices. Prices excluding food and energy categories—the so-called core measure economists watch in an effort to better capture inflation's underlying trend—rose 2.9% from a year earlier. That was in line with forecasts and was slightly hotter than 2.8% the previous month.

In addition, the month-over-month rate of increase cooled slightly compared with April, a sign that the sharp rise in energy prices might have peaked and begun to soften.

Wednesday's report isn't likely to provide Federal Reserve officials with a clearer direction on interest rates, a

week before their first policy meeting under new Chairman Kevin Warsh. For now, the debate among Fed officials runs from holding rates steady to even putting a rate increase back on the table.

Stock prices declined after the release of the data and after President Trump issued a new warning to Iran after a new flare-up of fighting in the Persian Gulf on Tuesday. The Dow Jones Industrial Average fell 953 points, or 1.9%, its largest one-day percentage decline since last October. The S&P 500 fell 1.6%, and the Nasdaq composite fell 2%. Brent crude-oil futures rose 1.8% to \$93.10 a barrel.

The month-over-month change in the CPI was slightly cooler in May than in April. Prices rose 0.5% in May from the month before, slowing slightly from 0.6% in April and 0.9% in March. The May change matched analysts' expectations.

Meantime, core prices rose 0.2%, cooler than 0.4% in April and less than the 0.3% that economists had expected. Economists see core prices as a better predictor of future inflation.

"I think that we're approaching the peak" in year-over-year inflation, said Joe Brusuelas, chief economist at RSM. Even so, there remains a lag impact of high energy prices on other categories, he warned, and the boom in artificial intelligence investment is causing supply-chain bottlenecks that will also put upward pressure on prices.

Economists said that May's inflation reading is likely to be the high water mark in the recent run-up in inflation from this year's energy-price shock. That is assuming gasoline prices, which have ticked down in June, don't accelerate again on renewed conflict in the Strait of Hormuz.

U.S. consumers have been feeling pain at the pump since the initial U.S.-Israeli attack on Iran in late February. The energy index accounted for over 60% of the increase in the consumer-price index from the previous month, the Labor Department said.

The war in Iran pushed average gasoline prices to a four-year high of \$4.56 a gallon in late May, according to AAA, although they have cooled to about \$4.15 since then.

The May CPI report showed energy prices increased 3.9% on the month in May, an acceleration from 3.8% in April. The index for gasoline jumped 7% on the month and was up more than 40% from a year earlier.

Overall, the economy is facing overlapping inflationary shocks from tariffs, energy costs and the investment boom in artificial intelligence. But what makes this bout of inflation harder to wave off than the inflation of a year ago is that the forces keeping prices elevated have changed character.

The Trump tariff story has given way to an energy crisis from the closure of the Strait of Hormuz. Pain at the pump is making many consumers feel miserable about the economy, and small businesses are prepping to raise prices to deal with higher fuel costs. Still, the stock market has been booming—which in turn helps well-heeled consumers keep spending.

Wednesday's report showed that the lion's share of price pressures were energy-related in May. Prices for core goods declined on the month, and services prices excluding energy rose more slowly.

For Fed officials, Wednesday's report marks yet another month in which the central bank makes no visible progress toward its inflation goal. So the report can't, by itself, resolve much of anything for Fed officials.

Though the month-over-month reading on core inflation was relatively moderate, that counts for only so much when the headline number is so much higher. For Fed policymakers reluctant to raise rates, one soft core print doesn't offer the cover it would have a year ago.

Wednesday's report contained a few signs that high gasoline prices are filtering into other costs. Airline tickets, for example, were up 2.7% from April.

But prices for food, housing and clothing rose more slowly, a welcome reprieve for inflation-weary households. Some other categories posted outright declines from the previous month.

Car insurance decreased 1.7% in May from April, prescription drugs dropped 0.9% and prices for new vehicles declined 0.3%.

A separate report from the Labor Department on Wednesday showed that inflation outpaced year-over-year wage gains in May for the second month in a row. Inflation-adjusted hourly earnings declined 0.7% on the year in May after dropping 0.3% in April.

That means households' purchasing power isn't keeping up with increases in the cost of things like rent, groceries and gasoline.

David Stacey, chief economist at America First Credit Union, said consumers appear reluctant to change their spending habits, even with the sharp run-up in gasoline prices.

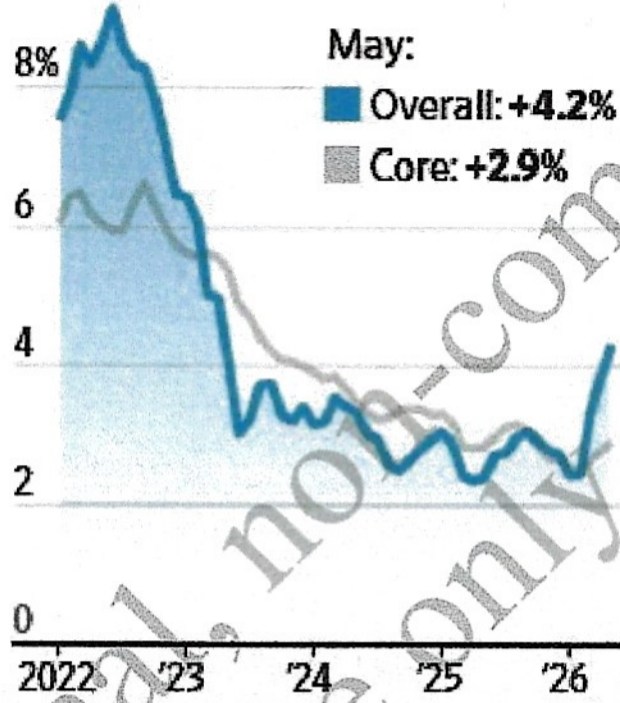
The Ogden, Utah-based lender is seeing increased credit-card delinquencies and write-offs, and slightly slower demand for new and used car loans.

"They're still spending, but they're spending themselves kind of into a trouble situation," Stacey said. "We're headed into the summer season and vacations, and that will just exacerbate" expenditures.

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Consumer-price index, change from a year earlier



Note: Data for October 2025 is unavailable.
Core excludes food and energy prices.
Source: Labor Department

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