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Shelter costs rose just modestly, largely because hotel rates fell.

Inflation Cooled Slightly To 3.4% In July

Tame reading, aided by gasoline prices, gives Fed less cause to raise interest rates

BY MATT GROSSMAN

The annual inflation rate fell slightly to 3.4% in July, easing pressure on the Federal Reserve to raise interest rates next month.

Stop-and-start peace negotiations in the Middle East brought a respite for gasoline prices. And so-called core prices, which exclude the volatile food and energy categories, rose by 0.2% in July from the previous month, a relatively modest increase offering hope that broader price pressures could be abating.

Underlying inflation trends are especially decisive right now for the central bank, where policymakers are grappling with whether and when to raise interest rates. Wednesday's report might make the Fed more comfortable waiting to see if inflation keeps cooling on its own, rather than trying to tamp it down with rate increases.

"I've spent the morning trying to poke holes in this beautiful number, and I've mostly failed," said Tani Fukui, an economist at MetLife Investment Management.

The 3.4% reading from the Labor Department was lower than June's 3.5%. Note

Core prices rose by 2.5% over the past 12 months, down from 2.6% in the year through Note

June. That reading essentially ties February's as the lowest recorded since 2021.

Iran war developments have jolted energy markets since the conflict began in late February.

For much of July, improved optimism for a peace deal pulled down gasoline prices, although they have rebounded more recently. Last month, gasoline prices were down 2.9% versus June. Even so, gasoline prices remained 25% higher than a year earlier.

Fed officials have for the past year forecast that inflation would return to their 2% goal without further rate increases, but more of them had changed their view in favor of raising rates.

Interest-rate futures recently showed that traders see a 58% chance that the Fed holds rates steady at its next meeting, according to CME Group, up from 54% just before the report and 52% Tuesday. The Fed will have one more month of inflation data by then. Note

"Even though there's going to be another release before the September meeting, I think there's already enough here to take that September hike off the table," said State Street economist Simona Mocuta.

The S&P 500 and the Nasdaq composite rose, with the Nasdaq up by 0.5%. The Dow Jones Industrial Average edged slightly lower.

Shelter costs, which include housing and hotels, rose just modestly—largely because hotel rates fell. That was a big help for the broader inflation rate given that shel-ter costs account for more than a third of the index. Still, rent and homeownership costs rose by 0.3% over the previous month, the kind of monthly increase that has helped keep broader inflation elevated in recent years. Note

Other services prices were mixed. Car-insurance prices declined, but airfares rose 2.2% over the month.

Inflation for physical goods (besides food and fuel) increased by 0.2% last month— pushed up by a 0.4% increase in used-car prices versus June. Inflation in other goods cate-gories was subdued. Furniture prices were flat, and apparel prices climbed by just 0.1%.

Price increases have cooled off since the searing inflation that followed the Covid-19 pandemic. But getting the inflation problem fully under control has proved an enduring challenge.

The 12month inflation rate fell as low as 2.3% early last year, but it rebounded as President Trump's tariffs began lifting goods prices.

At the start of this year, it looked like the inflation rate was on track to resume cooling. But higher energy costs from the Iran war boosted inflation once again this spring. Separately, the artificial-intelligence boom is fueling a frenzy of demand for computing infrastructure—pushing up prices for the necessary construction materials and hardware to build it.

The five-month-old Iran war has entered an uncomfortable stalemate, with Iranian leverage over the Strait of Hormuz foiling the White House's attempts to end the conflict on terms favorable to the U.S.

Stop-and-go progress toward a peace deal helped ease gasoline prices from more than $4.50 a gallon in May. But they are still at roughly $4 a gallon, according to AAA, up from about $3 a gallon before the conflict started at the end of February.

Cheaper gasoline means that, for now, energy costs are no longer pushing up consumer prices like they were in the spring. But energy costs could turn higher again if the conflict wears on. In August so far, average gasoline prices have been back above $4.

Outside of big recent swings in energy prices, underlying inflation trends have been more stubborn than Fed policymakers would like. For inflation to fall sustainably back toward the Fed's goal of 2%, the economy likely needs not just cheaper gasoline, but also cooler increases across categories such as housing, airfares and auto insurance. W h e t h e r companies can keep passing along higher prices to customers across the rest of the economy will depend in large part on the financial health of shoppers. Consumers have been resilient so far, but many are exhausted from five years of elevated inflation and they are facing an uncertain labor market.

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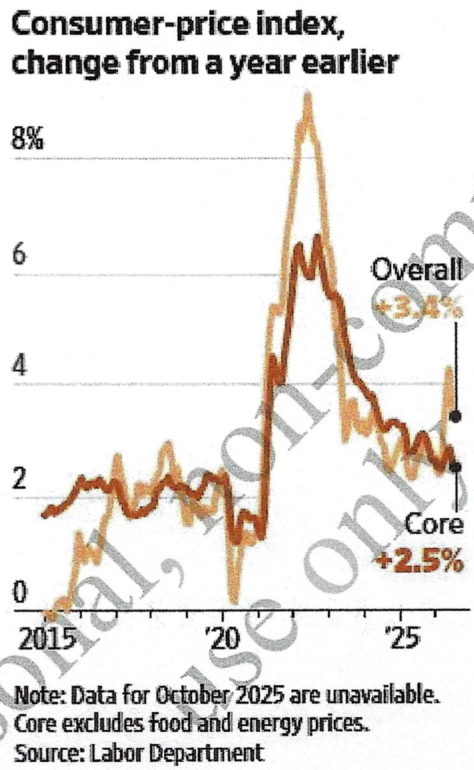

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Officials will get one more month of inflation data ahead of their next meeting.

Tame Rise in Prices Buys Time for Fed on Rates

BY NICK TIMIRAOS

July's inflation report was close enough to expectations to ease pressure on the Federal Reserve to raise rates next month without resolving much about the outlook beyond that.

Monthly inflation readings have taken on greater importance this summer. Officials are deciding whether they can still defend a forecast that has inflation coming down without higher rates, or whether they need to raise rates to get there. June and July data haven't suggested the type of broadening in price pressures that would force officials to abandon it.

The case for tighter policy also received less help from last week's employment report, which showed no sign of reaccelerating demand for labor. A stronger labor market might have animated concerns that rates weren't restrictive enough to bring inflation down.

The consumer-price index, excluding volatile food and energy prices, rose 0.2% on the month, in line with expectations. Core prices were up 2.5% from a year earlier.

"It hurts the hawks more than it hurts the doves," said Neil Dutta of Renaissance Macro, who assumes that coming meetings will be roughly a coin flip because the inflation data won't be conclusive. "If you toss a coin enough times, it will probably come up heads at least once." He allows the odds aren't fixed. If the Fed gets through the fall without acting, Dutta said, the data will probably have been good enough to keep it on hold.

Officials will receive one more month of inflation data ahead of their Sept. 15-16 meeting. The Fed targets a separate inflation gauge, due later this month, that Wednesday's report feeds into and that has been running hotter than the CPI. Core prices in that measure rose 3.3% in June.

Wall Street was especially tuned to this report because Fed officials have grown sensitive to data suggesting the economy isn't behaving as they expected. The Fed held rates steady last month, but at least six of the 12 voting members have signaled in recent weeks that they could support an increase depending on the inflation data. Three dissented in July in favor of higher rates.

The majority's forecast has rested on the view that current rates are restrictive enough to bring inflation back to 2%, and that inflation has stayed elevated because of temporary shocks rather than because policy is too loose. The thinking has been tariffs would raise costs once and fade, and energy prices would follow crude oil lower as Middle East hostilities eased. Instead, the shocks have persisted and now overlap with a surge in demand from the artificial- intelligence build-out.

The debate is complicated by a broad recognition by officials that a single quarterpoint increase wouldn't accomplish much on its own. Cleveland Fed President Beth Hammack, who voted for a rate increase last month, said this week that one quarterpoint increase "probably doesn't do a whole lot for the economy," and that the Fed would likely need to make a sequence of such adjustments.

San Francisco Fed President Mary Daly, who supported the hold, went further last week by questioning whether incremental moves would work at all. During a speech, she described two possible economies: the one where recent shocks fade and the Fed can stay on hold, and another in which they compound and inflation gathers momentum of its own. The first remains her base case, she said, but the gap has narrowed.

The second scenario could call for an increase larger than the quarter point the Fed typically uses, Daly said.

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Inflation of 0.1% in July disappoints those bashing Kevin Warsh.

Disinflation Returns, Critics Hardest Hit

-Not -CPI

That sound you hear is the sigh coming from those disappointed at the consumer- price index increase of a mere 0.1% in July. The critics of new Fed Chair Kevin Warsh were hoping for a bigger number in Wednesday's monthly report, so they could continue to call into question his "credibility" in fighting inflation after a mere three months on the job.

That credibility issue is a concoction of the central banking and Wall Street establishments desperate to have Mr. Warsh keep telling them what the Fed will do before it does it. Unlike recent Fed Chairmen, he doesn't believe in "forward guidance," and good for him. Instead he's promising to meet the Fed's 2% inflation target without such guidance, and the chattering classes posited that the central bank's decision not to raise rates in June or July meant he didn't really mean it.

Yet July's moderate increase follows a minus- 0.4% reading in June. The so-called core price index, sans food and energy, was up 0.2% in July after a flat June. For the last 12 months, the core reading is 2.5%, but that's down from 2.9% in May. The 12-month CPI reading is still too high at 3.4%, but that shot up this spring amid energy-driven increases in March-May caused by the Iran war.

Underlying inflation seems to be moderating. This would vindicate the Fed's July caution in defying the clamor from the media and financial back benches to raise rates. As a political matter, none of this relieves the election pressure on Republicans. Real average hourly earnings fell 0.1% in July, and real incomes haven't risen for most workers in the last year. This will weigh heavily on the minds of voters, even if much of the inflation was inherited from the Biden Administration.

The Federal Open Market Committee can't do anything to stop that damage before November, but it can work to get inflation back in the 2% bottle. It next meets in September on monetary policy, and it will be able to add August's price data to what it has learned in July. If inflation shows new momentum upward, the Fed can tighten money then.

The test of the Warsh Fed, as with all chairmen, is whether the central bank achieves and maintains price stability. Mr. Warsh has promised to do so, and that is how he should be judged. The whining in recent weeks is from those who want to derail Mr. Warsh's Fed reform project before it begins.

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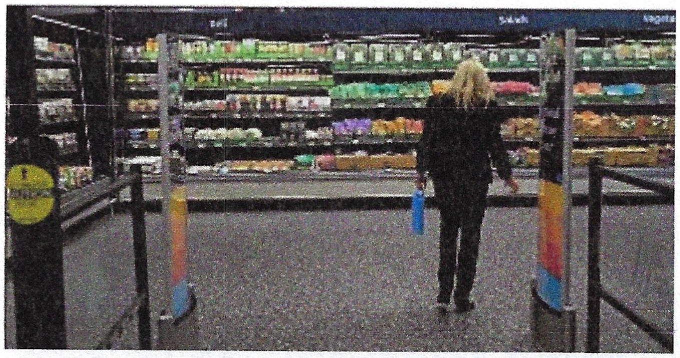
Consumer inflation mild, but economy not out of the woods yet

The Denver Gazette · 13 Aug 2026 · C1 · Reuters

WASHINGTON • U.S. consumer prices barely increased in July from the month before as the cost of gasoline declined for a second straight month, while underlying inflation was benign, further reducing the odds of an interest rate hike from the Federal Reserve next month.



The small rebound in the monthly Consumer Price Index reported by the Labor Department on Wednesday, which was in line with economists' expectations, also reflected marginal gains in the prices of food and apparel as well as decreases in the costs of hotels and motel rooms and prescription medication.

Note Note

The report followed on the heels of news last week of surprise job losses in July. Still, economists said a rate increase this year remained on the table as inflation was running well above the U.S. central bank's 2% target.

"In-line inflation will keep the 'no need to hike rates' narrative that took hold after last week's jobs report intact," said Ellen Zentner, chief economic strategist at Morgan Stanley Wealth Management. "There will be another round of inflation data before the September meeting, so the story line could still change."

The Consumer Price Index edged up 0.1% last month after dropping 0.4% in June, which was the first decline in six years, the Labor Department's Bureau of Labor Statistics said.

A 0.1% rise in the cost of shelter accounted for roughly two-thirds of the gain in the CPI. Shelter was restrained by a 3.3% plunge in prices for hotel and motel rooms, likely linked to the end of the FIFA World Cup tournament. That offset a 0.3% increase in owners' equivalent rent. Gasoline prices fell 2.9% after decreasing 9.7% in June.

In the 12 months through July, the CPI advanced 3.4% after rising 3.5% in June. July's cooler inflation readings likely offer little comfort to consumers as prices are still higher than they were a year ago and wages are not keeping up.

Excluding the volatile food and energy components, the CPI gained 0.2% last month after being unchanged in June. The so-called core CPI increased 2.5% in the 12 months through July after climbing 2.6% in June.

The United States' position as a net oil exporter and the drawing down of petroleum inventories had cushioned the hit on the economy from the oil price shock sparked by the Middle East conflict, but some economists said that could not persist indefinitely. They also added that the U.S. and other nations would at some point need to replenish petroleum inventories, which would keep oil prices elevated.