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Chicago Fed Chief: New Tariffs Cloud Inflation Picture

BY MATT GROSSMAN

New tariffs unveiled by President Trump have further muddied the inflation outlook, said Chicago Fed President Austan Goolsbee, making it more difficult for him to support the rate cuts that the president has pressed for.

During the past few months, after Trump paused steep bilateral tariffs he proposed in April, anxiety about how tariffs could push up prices calmed substantially. That put the Federal Reserve on track to ease interest rates again soon, Goolsbee said in an interview Friday. !

But the latest round of tariffs— including a 35% levy on some Canadian imports and a 50% tariff on goods from Brazil, set to begin Aug. 1—could spark fresh concerns about inflation, which might force the Fed to maintain its wait-and-see posture until the central bank gets more clarity, Goolsbee said.

"I'm hopeful that when we go back and talk to [businesses] now, they don't say, 'Oh, this is putting us back to where we were on April 3,' " Goolsbee said. "But I don't know, because this has just happened."

The Fed began easing rates last September as it gained traction against inflation. A brief inflation resurgence earlier this year, as well as uncertainty about how changes to trade, immigration and fiscal policy will hit the economy, have led it to hold its benchmark rate steady at 4.25% to 4.5% since December.

Goolsbee and other Fed interest- rate voters broadly agree that if inflation continues to cool, rates can move lower over time to reach a more neutral setting. Since the Fed's June meeting, Goolsbee has been among the Fed officials most supportive of cutting rates again sooner.

But now, the latest round of tariff increases requires more caution, Goolsbee said.

"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," he said.

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Inflation readings since Trump's April 2 tariff announcement have been encouraging. In the 12 months through May, the Fed's preferred inflation index rose by 2.3%, within a stone's throw of its 2% target.

Much debate at the Fed has centered on whether tariffdriven price increases are still on the way. If so, policymakers are scrutinizing whether they will come as a one-time jump, or as part of a more sustained bout of inflation that the Fed has to fight with a longer stretch of restrictive policy.

Meanwhile, a slightly weaker but relatively solid mosaic of data on the underlying state of the economy has led Chair Jerome Powell and other Fed officials to advocate for patience.

Trump's demands for lower rates and his caustic criticisms of Powell have further complicated the path forward. Trump is set to nominate Powell's successor next year and has insinuated he will pick a candidate aligned with his preference for low interest rates.

On Thursday, the White House ramped up its pressure on Powell by demanding he answer for cost overruns in the Fed's renovation of its Washington, D.C., headquarters.

Goolsbee said he and his colleagues in the Fed's leadership ranks will insist on blocking out political influence.

"I'm still pretty confident that the culture of the Fed is one that everyone takes the job seriously and recognizes how important independence is from political interference," he said.

