U.S. Inflation Insight: August 2025

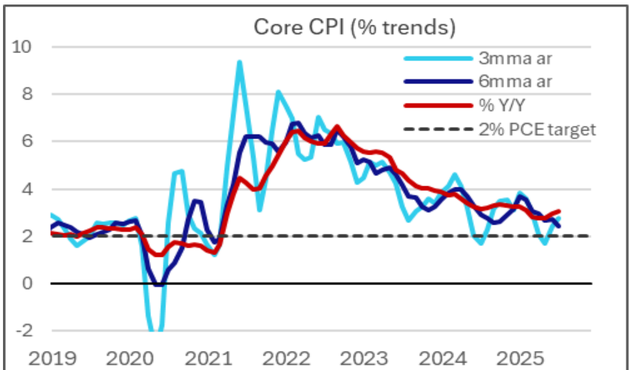
MNI View: Core Goods Spike Fails To Emerge

Aug 12, 2025 – By Chris Harrison and Tim Cooper

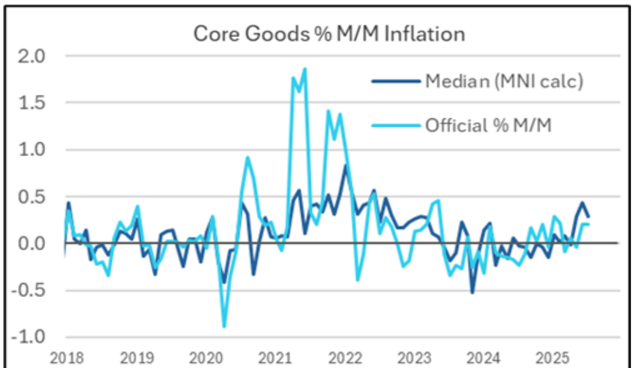
CPI Inflation	Jun	July
Core M/M (sa)	0.23%	0.322% (MNI unrounded median 0.32)
Headline M/M (sa)	0.29%	0.197% (MNI unrounded median 0.24)
Core Y/Y	2.93%	3.059% (cons 3.02)
Headline Y/Y	2.67%	2.705% (cons 2.77)

The July CPI report saw further acceleration in monthly core inflation but it was driven by the volatile supercore category. Instead, core goods inflation, an area of focus for tariff passthrough clues, was surprisingly soft. This category only maintained the still-solid monthly clip seen in June, whilst median core goods inflation moderated after a strong increase in June.

- Core CPI inflation was exactly in line with the median unrounded analyst estimate we had seen for July at 0.32% M/M, accelerating from 0.23% in June and 0.13% in May for its strongest month since January.
- The breakdown relative to expectation was dovish however, as core goods underwhelmed (0.21% M/M vs average expectations closer to 0.4%) in a month that was expected to show increasing signs of tariff passthrough ahead of perhaps the largest monthly increases in the fall months. It follows a very similar 0.20% M/M in Jun after a weak -0.04% M/M in May.
- Notably, this came despite used cars prices exceeding expectations (0.48% M/M vs estimates closer to 0.3) although that's still a modest increase after four consecutive monthly declines averaging -0.6% M/M.
- Indeed, MNI calculations of median core goods inflation across 56 items softened to 0.28% M/M after a particularly strong 0.44% in June and 0.29% in May. This is still a robust pace - it averaged 0.0% M/M in 2024 and 0.06% M/M in Q1 - but clearly doesn't show sign of accelerated tariff passthrough.
- The offsetting factor was core services (0.36% M/M vs average expectations around 0.30%), driven by the volatile "supercore" category at 0.48% M/M whilst rental inflation was exactly as expected.
- Airfares played a large role here and as always won't feed into PCE. Some notable PCE inputs meanwhile saw partly offsetting large moves from booming dental services and further declines in lodging.
- Taking a step back, core CPI inflation firmed to 3.06% Y/Y (cons 3.0) after 2.93% Y/Y, its strongest since Feb 2025. Both three- and six-month run rates are tracking softer than this, at 2.8% and 2.4% annualized.
- Adding to the net dovish take from core CPI details, headline CPI undershot with 0.20% M/M in July (MNI median 0.24) owing to downside surprises in both food (0.05% M/M vs expectations 0.25%, including food at home at -0.12% M/M for only the second decline in the past fifteen months) and energy (-1.1% vs 0.6%, despite gasoline being as expected).
- It saw headline CPI inflation little changed at 2.70% Y/Y after 2.67% in June, holding the prior acceleration from the April low of 2.31% Y/Y.
- The report saw a firming up of 25bp cut expectations for the next FOMC decision on Sept 17, with 24bp priced vs 21bp prior, and 61bp of cuts to year-end. The path nears dovish extremes seen after the surprisingly weak July nonfarm payrolls report on Aug 1.
- Eyes will firmly be on Powell at Jackson Hole next week but we still get Aug NFP/CPI data before Sept 17.
- Ahead of Thursday's PPI release, core PCE tracking looks to be around 0.25% M/M after 0.26% in June.



Source: BLS, MNI



Source: BlS, MNI. Median across 56 core goods items.

CPI Details

Headline CPI Below-Expected On Both Food And Energy

July's core % M/M CPI reading of 0.322% was in line with expectations (MNI unrounded median 0.32%), with the 0.197% M/M headline a "miss" vs 0.24% MNI unrounded median.

- Starting with headline, both food and energy prices came in below expected (0.05% vs 0.27% exp for food; -1.07% vs -0.65% exp for energy).
- Food at home fell 0.1% (after two months of +0.3%) but food away from home remained stubbornly high at 0.3% (after 0.3-0.4% the prior 2 months).
- Motor fuel prices fell 2.0%, in line with expectations - energy services fell 0.3% after +0.9%, led by a pullback in electricity prices (-0.1% after +1.0%).

Summary of Key Categories Vs Analyst Consensus (Red=Higher Than Avg Expectation, Green = Lower)

mni	Headline NSA Index	NSA Y/Y	Core NSA Y/Y	Headline SA M/M	Core SA M/M	Supercore M/M	Food M/M	Energy M/M	gasoline M/M
Jul (actual)	323.048	2.70	3.06	0.197	0.322	0.48	0.05	-1.07	-2.0
Jul (median)	323.274	2.78	3.00	0.24	0.32	0.31	0.27	-0.65	-2.2
Jul (mean)	323.252	2.77	3.02	0.23	0.30	0.30	0.25	-0.60	-2.2
Bbg consensus	323.286	2.8	3.0	0.2	0.3				
Jun (actual)	322.561	2.67	2.93	0.287	0.228	0.21	0.33	0.95	1.04

Core CPI Categories Lean Soft Vs Expectations, Especially Goods

Core categories leaned soft vs expectations. As noted, shelter prices were roughly in line with expectations.

- Looking at core goods, they were much softer than expected at 0.21% vs 0.39% MNI median - and that's despite a higher-than-anticipated 0.48% M/M rise in used car prices (0.30% expected) for the fastest rise in 5 months after 4 months of sharp deflation.
- Overall ex-used vehicles goods inflation came in at 0.17%, about half of June's rate (0.32%) though still elevated by historical comparison (averaged 0.0% in the 12 months prior to June).
- Apparel prices were soft at 0.07% M/M (0.5% expected), with medical care commodities and new vehicle prices flat M/M (albeit the first non-negative reading in 4 months). Household furnishings and supplies - another tariff-sensitive area - rose 0.7% but that was a little softer than the 1.0% printed prior.
- Core services were on the high side at 0.36% M/M (0.29% expected) however, with strength in airfares (4.0% M/M vs 1.5% expected) which recall comes from PPI for the PCE report; conversely lodging remained soft at -1.0% (flat expected) with auto insurance roughly in line at 0.1%.
- There was some strength in medical care services however, which picked up to 0.8% M/M (0.6% prior), led by dental (2.6%) and professional medical services (0.8%). These were some of the largest rises in years in these categories - for dental it was a record high and came after +1.3%, notable for a PCE-input category.
- Communications were soft at -0.3% for a 3-month low after 0.0% prior.

Summary of Key Core Categories Vs Analyst Consensus (Red=Higher Than Avg Expectation, Green = Lower)

mni	Core SA M/M	Supercore M/M	Core goods M/M	used cars M/M	apparel M/M	Core services M/M	OER M/M	rents M/M	lodging M/M	airfares M/M	auto ins. M/M
Jul (actual)	0.322	0.48	0.21	0.48	0.07	0.36	0.28	0.26	-1.02	4.04	0.13
Jul (median)	0.32	0.31	0.39	0.30	0.50	0.29	0.28	0.25	0.1	1.5	0.1
Jul (mean)	0.30	0.30	0.38	0.24	0.44	0.29	0.28	0.26	0.0	1.5	0.2
Bbg consensus	0.3										
Jun (actual)	0.228	0.21	0.20	-0.67	0.43	0.25	0.30	0.23	-2.89	-0.11	0.08

Travel Categories, Medical Services Largely Responsible For Core Uptick

As usual, core services contributed the majority of overall core CPI in July, worth around 0.28pp of the 0.32% M/M reading. That's up from 0.19pp in June (on a core CPI reading of 0.23% M/M).

- As seen in the table below, the increased services inflation pressure vs June's report was almost entirely due to airfares (0.05pp more of a contribution), lodging (0.03pp more, albeit still contributing negatively), and medical services (0.02pp more). The key housing categories had a relatively flat contribution vs June.
- Core goods once again contributed 0.05pp, though the composition was different this month: used and new vehicles contributed slightly positively (after subtracting 0.04pp in June), with all other core goods seeing their contribution fall to 0.04pp from 0.09pp prior.

US: Contributions to % M/M Core CPI

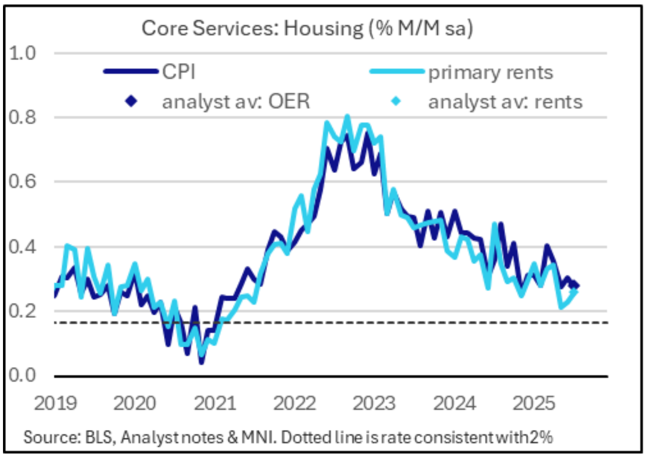
	Jun	Jul	*chg*
Core CPI	**0.23**	**0.32**	**0.09**
core goods	0.05	0.05	0.00
used cars	-0.02	0.01	0.03
new cars	-0.02	0.00	0.02
other goods	0.09	0.04	-0.05
core services	0.19	0.28	0.08
housing	0.12	0.11	-0.01
OER	0.10	0.09	-0.01
primary rents	0.02	0.02	0.00
lodging	-0.05	-0.02	0.03
medical serv	0.05	0.07	0.02
car insurance	0.00	0.00	0.00
airfares	0.00	0.04	0.05
other services	0.07	0.06	-0.01

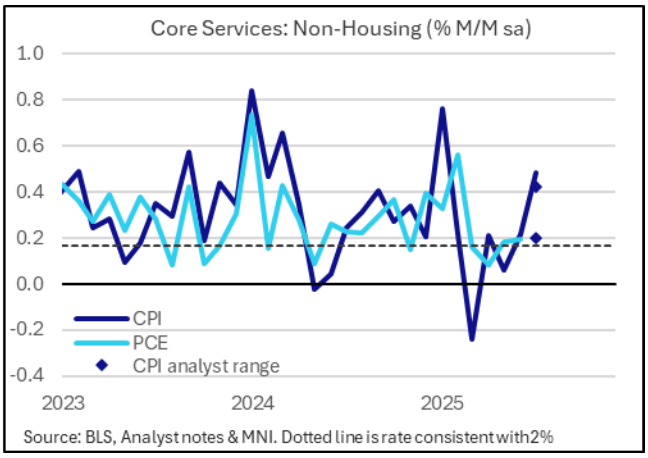
Source: Bloomberg Finance L.P., BLS, MNI.
Figures don't always add exactly due to rounding

Supercore CPI Above Expectations, Rents Exactly As Expected

- Core services excl OER & primary rents ('supercore'): 0.479% M/M after 0.212%. Latest 3mth av of 0.251%
- Core services excl all shelter: 0.538% M/M after 0.361%. Latest 3mth av of 0.318%
- Limited analyst estimates for ex OER & rents had averaged 0.30% M/M, ranging from 0.2 to 0.42

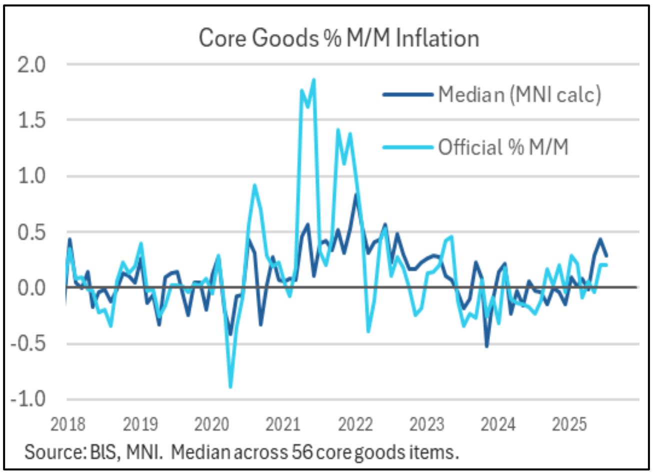
- Owners' equivalent rent (OER) at 0.28 vs average analyst estimate 0.28% (range 0.25-0.30) after 0.30% in June.
- Primary rents at 0.26 vs average 0.26% (range 0.22-0.34) after 0.23% in June.
- It saw the weighted average for rental inflation at 0.27% M/M, having been at or below its average pace from 2019 (0.28% M/M) in five of the past nine months now.

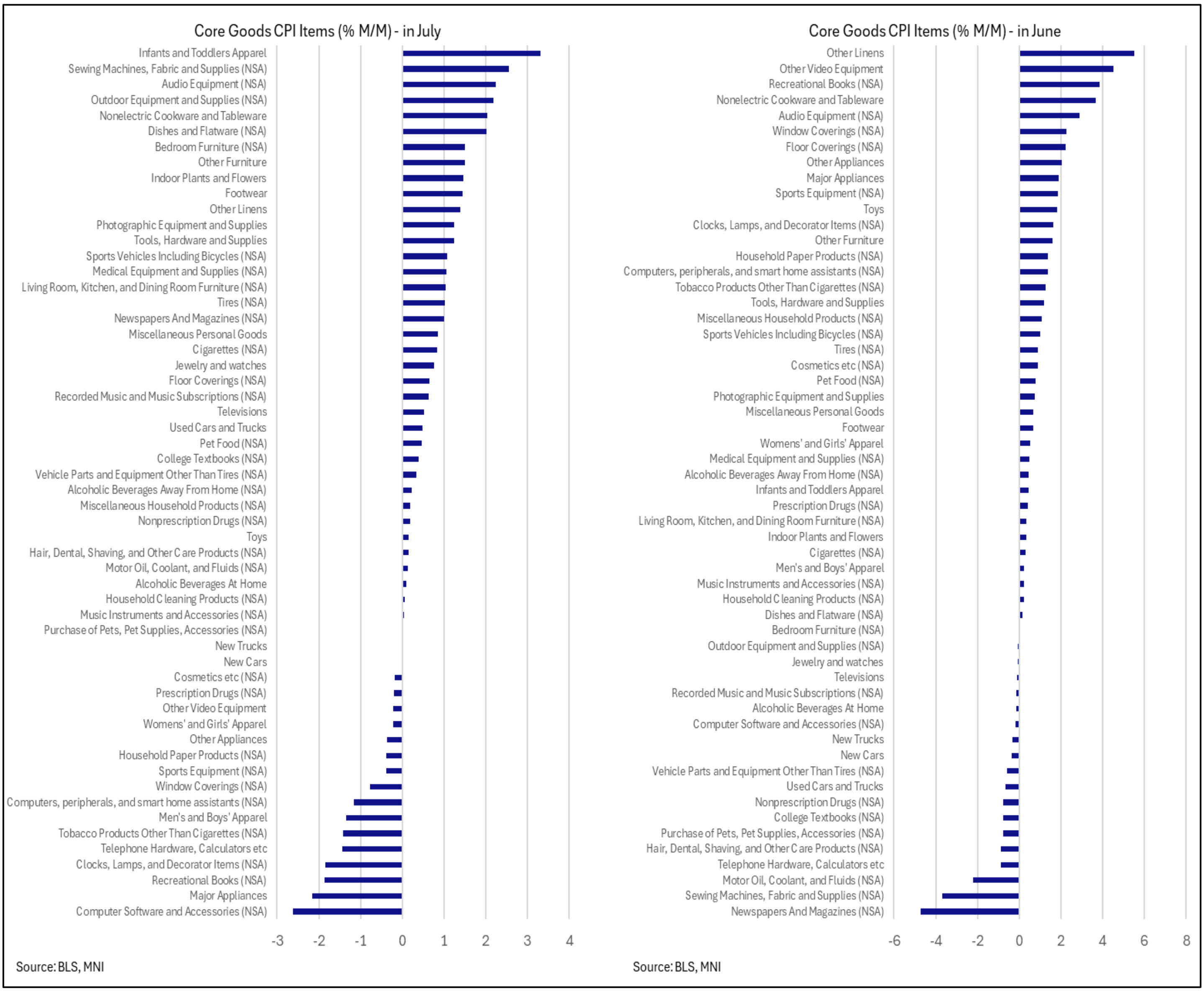




Core Goods Median M/M Moderates In July After Strong June

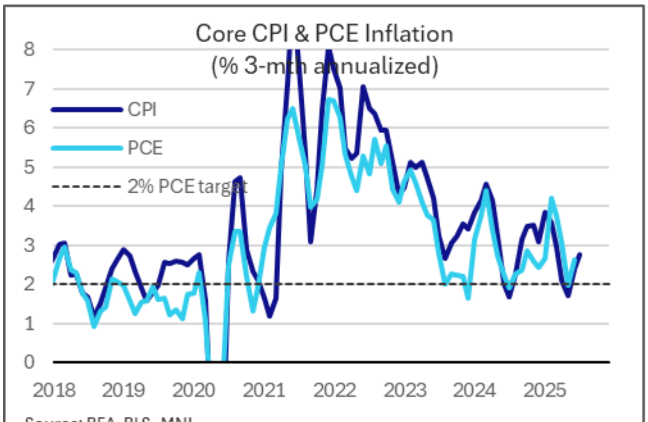
- Core goods inflation was surprisingly soft in July at 0.21% M/M vs analyst average estimates closer to 0.4%, i.e. a very similar pace to the 0.20% M/M in June rather than a firm acceleration.
- We go into some of the main drivers for this surprise above but our calculation of median moderated to 0.28% M/M after a particularly strong 0.44% M/M in June. It's back at a pace similar to the 0.29% M/M in May.
- This is still a robust pace – it averaged 0.0% M/M in 2024 and 0.06% M/M in Q1 – but clearly doesn't show any further acceleration in what would have been a sign of accelerated tariff passthrough.
- As we always caution though, see the below charts for the extent to which these individual series aren't seasonally adjusted.



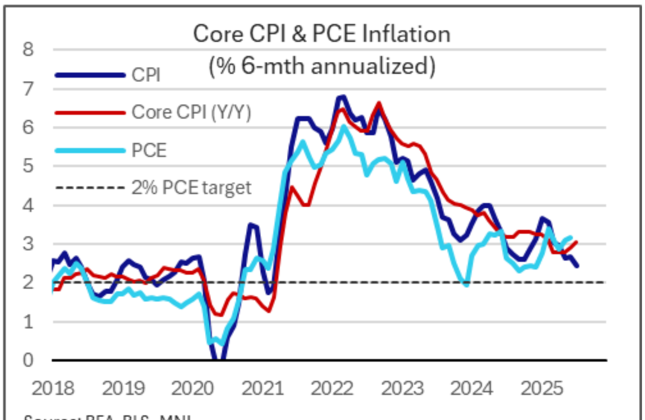


Core CPI Trends Running Below Stubborn Y/Y

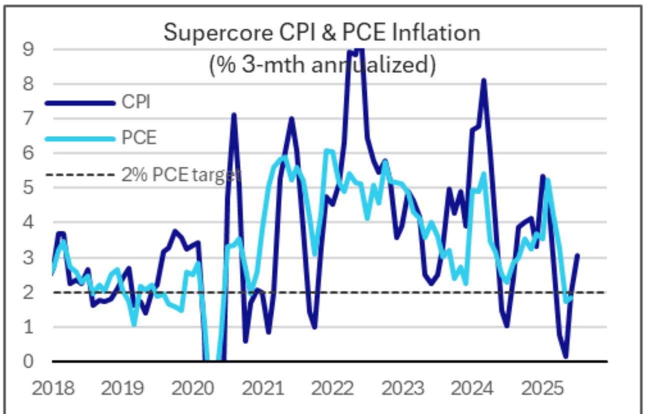
- As the earlier unrounded figures showed, the core CPI Y/Y of 3.06% marginally beat consensus as it rounded up to 3.1% (cons 3.0) after 2.93% Y/Y, despite the M/M being exactly in line with the median unrounded analyst estimate we'd seen of 0.32% M/M.
- A reminder here that the Y/Y is calculated from NSA data whereas the M/M (and subsequent trend rates) is calculated from SA data.
- That's the fastest Y/Y since Feb 2025 although 3- and 6-mth run rates are softer, albeit moving in different directions.
- The 3-month accelerated from 2.4% to 2.8% annualized whilst the 6-month eased from 2.7% to 2.4% annualized.
- This pattern was echoed in the supercore, with the 3-month accelerating from 2.0% to 3.1% (driven by a strong 0.48% M/M in July) compared to the 6-month easing from 2.5% to 1.9% (on account of the booming 0.76% M/M in Jan dropping out).
- This is the softest 6-month supercore rate since Jan-Feb 2021 although needs to be treated with particular caution owing to larger differences with its PCE counterpart owing to greater reliance on PPI details.
- For instance, CPI airfares were a particular source of strength at 4.0% M/M but won't feed into PCE and other important inputs for medical care services remain to be seen. As for items that do feed into PCE, there were somewhat offsetting large moves from booming dental services (2.6% M/M, 4.3% of supercore CPI) and further declines in lodging (-1.0% M/M, 6.4% of supercore)



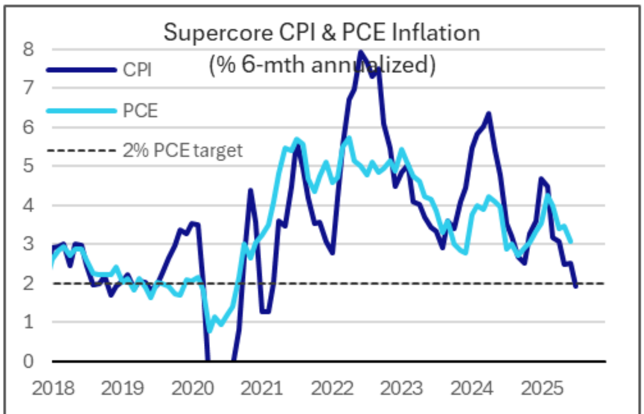
Source: BEA, BLS, MNI.



Source: BEA, BLS, MNI.



Source: BEA, BLS, MNI. Core services ex OER & primary rents

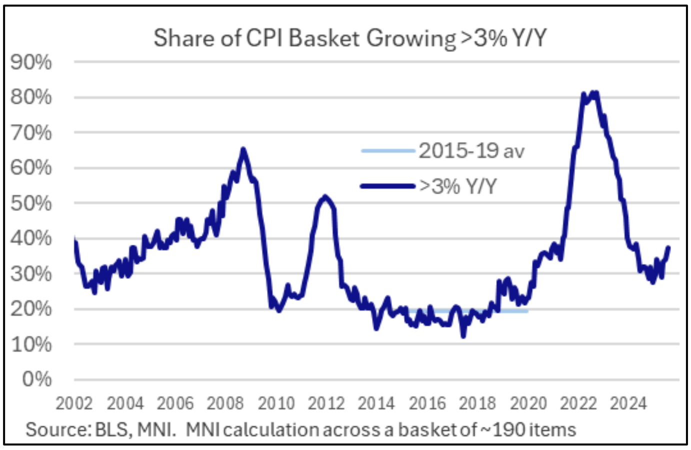


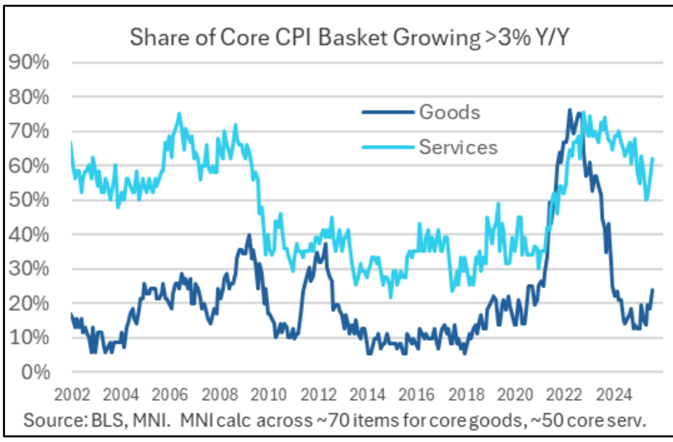
Source: BEA, BLS, MNI. Core services ex OER & primary rents

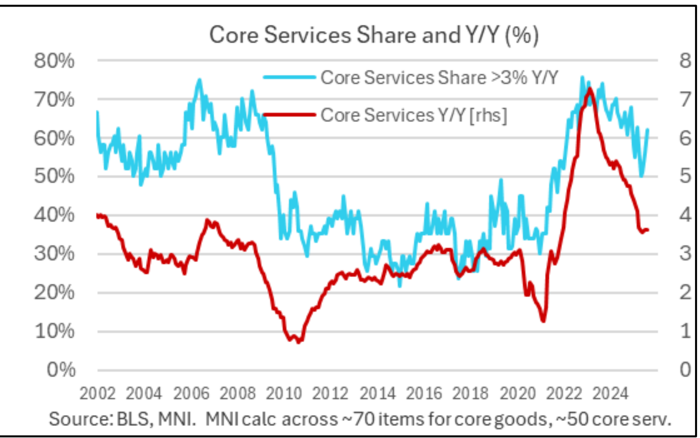
Increased Share Of CPI Basket Growing >3% Y/Y

Whilst core goods inflation undershot expectations for a further acceleration in M/M terms, a still solid monthly clip compared to 2024 levels is starting to see an increased share of items growing in excess of 3% Y/Y.

- We calculate 24% of core goods items increased >3% Y/Y in July after 18% in June to take it further away from recent lows of 13-14% in Oct-Jan, now at its highest since Feb 2024.
- Context is important though, as it's above the 18.5% averaged in 2019 and 12% averaged through 2015-19 but still of course far below the highs of 75% seen in late 2022.
- The core services equivalent meanwhile increased for a third consecutive month to 62% having recently bottomed at 50% in April. It averaged 38% in 2019 and 34% in 2015-19 for a longer pre-pandemic period.







Core PCE Estimates Around 0.25% M/M Whilst Waiting For PPI Details

We have seen some concentration in analyst core PCE estimates around 0.25% M/M for July (including NWM at 0.24, TD Securities at 0.25, UBS at 0.25 and BofA at 0.28) for the same pace as the 0.256% M/M in June.

- There's a longer than usual gap to the PPI July report (Thursday) but we'll revert with latest tracking estimates on the MNI bullets service.

Post-CPI Fedspeak

- Barkin (non-voter) says balance between dual mandate variables still unclear
- Schmid ('25 voter) sounds like he would dissent to a September cut

Richmond's Barkin: "Balance" Between Dual Mandate Variables "Still Unclear"

Richmond Fed President Barkin (non-voter in 2025 and 2026) continues to lean to the hawkish side in a speech released Tuesday called "Why the Consumer Matters" (link).

- On current monetary policy, as usual he holds back on making any explicit projections. While he says the "the fog" of uncertainty in multiple areas "is lifting", he appears to suggest that more time and data is still needed before making any decisions: "at our July meeting, with the labor market near most estimates of maximum employment and inflation above target, the FOMC continued to hold the fed funds rate at a modestly restrictive level. We may well see pressure on inflation, and we may also see pressure on unemployment, but the balance between the two is still unclear. As the visibility continues to improve, we are well positioned to adjust our policy stance as needed."

- He appears to downplay the recent weakness in nonfarm payrolls when revisions are taken into account: " businesses have been in a low hiring-low firing mode that has created an unusual but stable labor market. Unemployment remains low at 4.2 percent, near most estimates of maximum employment... Job gains have slowed recently, which is certainly worth watching. But I'm hopeful that even as businesses face cost and price pressure, they'll largely avoid the type of large layoffs that would spike unemployment and lead to consumer pullback. As with consumers, how businesses have come into this moment matters. Firms are already running lean. They've been slow-rolling hiring for years in anticipation of a recession that hasn't come. They've been downsizing via attrition. With businesses already light on staff, we should see fewer reductions. So, any coming increase in the unemployment rate may well also be less than many anticipate."
- That said, he doesn't appear too worried about inflationary pressures, due to consumers not having the same purchasing power as they did in the pandemic reopening episode: " this isn't 2022, when we saw inflation balloon. For one, the Fed's policy stance is more restrictive now. But beyond that, remember that back then, consumers were flush with cash due to pandemic stimulus, suppressed spending, higher wages, and frothy asset markets. They didn't let price increases hinder their revenge spending. That fueled inflation. That's just not where consumers are in 2025. They feel stretched, particularly those with low and moderate incomes. They are more willing to defer purchases if prices go up. Should they feel forced to accept price increases for certain products, I expect they will forego spending for others. I'm sure your procurement teams are thinking the same way. This dynamic may already be playing out: Amid all the talk of tariffs and higher goods prices to come, we've seen people stock up on iPhones and cut back on services, such as air travel and lodging. If we see this kind of demand destruction more broadly, the inflationary impact of tariffs would be less than many anticipate."

KC Fed's Schmid Sounds Like He Would Dissent To A September Cut

Kansas City Fed President Schmid (2025 FOMC voter, hawk)'s comments in a speech Tuesday ("The Federal Reserve and Outlook for the Economy and Monetary Policy" - **link**) hint that he wouldn't support a rate cut as soon as September's FOMC meeting, and could even dissent against such a decision. He sees policy as "not very restrictive" and close to neutral and appears to view the debate over tariff-driven inflation as something of a distraction - instead the Fed should "monitor demand growth" in order to keep inflation "on a path to 2%".

- In short, "with the economy still showing momentum, growing business optimism, and inflation still stuck above our objective, retaining a modestly restrictive monetary policy stance remains appropriate for the time being. Though of course this is a position that I will continually reassess as we receive new data and information on inflation, the labor market, and the economy more generally."
- He says that "My support for a patient approach to changing the policy rate is based on two connected arguments. First, while monetary policy might currently be restrictive, it is not very restrictive. And second, given recent price pressures, a modestly restrictive stance is exactly where we want to be."
- He says that the current policy stance is "not far from neutral": "we are as close to meeting our dual mandate objectives of price stability and full employment as we have been for quite some time. And while uncertainties abound, I do not see strong evidence of a trend movement away from our mandates at this point." He points to financial market variables: "looking at financial markets, with stock prices near record highs and bond spreads near record lows, I see little evidence of a highly restrictive monetary policy."
- On the labor market, he appears to shrug off the weakly-perceived July employment report: "While it is true that payroll growth was weak over the summer, a broader set of indicators suggest a labor market that is in balance. " On inflation: "On the other side of the mandate, inflation remains too high." And on growth: "Currently, the economy continues to show strong momentum...I am hearing increased optimism as some of the uncertainty and concern around trade policy that spiked in April recedes. Overall, my expectation is that the economy will show continued resilience."
- On tariffs, he says that he wouldn't "characterize my view on tariffs and inflation as 'wait-and-see'", in part because "I will confidently forecast that a decade from now economists will still be arguing over exactly what impact the tariffs had on inflation. As such, I see no possibility that we will know the effect of the tariffs on prices, either as a one-off shock to the price level or a persistent inflation impetus, over the next few months."
- As such he'll be "data dependent" - while "the Fed cannot offset the effect of higher tariffs on prices, [] what the Fed can do is monitor demand growth, provide space for the economy to adjust, and keep inflation on a path to 2 percent. Overall, I am anticipating a relatively muted effect of tariffs on inflation, but I view that as a sign that policy is appropriately calibrated rather than a sign that the policy rate should be cut."

Post-CPI White House Administration Comments

Fed Gov Nominee Miran: No Tariff Inflation; Service Disinflation Imminent

Fed Governor nominee (and current CEA head) Miran on CNBC says he "just can't comment on current monetary policy at the moment" due to his impending Senate nomination. However, he reiterates his view that there's little to no evidence of tariffs translating into stronger inflation, and he also makes the case that domestic services inflation will pull back "profoundly" due to reduced net immigration.

- "At the aggregate level, when you look holistically across the inflation data, there's just no evidence of [tariffs] whatsoever."
- "If you look at core... two of the strongest categories this month in terms of inflation were used cars and airfares. And neither of those have anything to do with tariffs. We don't import used cars from from abroad in large scale. And airfares are on domestic services... we've been doing a lot of thinking about just how much of this inflation is due to the illegal immigration that's occurred... Our calculations are that the massive in surge of renters into an only sluggishly adjusting housing supply probably boosted rents by about 4-5%. And that's a significant contribution to overall inflation at a time when the housing stock adjusts only slowly... we think that there's a very strong reason for thinking of very profound service disinflation coming up in the near future, as net migration has come to zero because the President's strong border policies."
- On the BLS jobs data, he says there's an element of "noise, uncertainty" that has "increased in recent years", including the birth-death model. "So this is a degradation in the quality of the statistics that has occurred. And I think the President is dead right when he says, we need to fix this. We need to make these statistics reliable. We need to make them believable. We need to make them credible. And I'm really delighted we're shaping up to be able to do."
- He says that re economic surveys, the BLS should consider "incentive schemes to drive response rates higher. I think that we can start thinking about ways to optimize the collection system, optimize the survey system, optimize the timing of responses. I think that we should be thinking critically about these questions."

Market Reaction: Modest Dovish Reaction Back Nearer Post-NFP Dovish Extremes

- Fed Funds implied rates pared some of the snap reaction to the release but are holding a push lower on the dovish core goods and headline CPI details, albeit keeping within ranges seen since the July payrolls report on Aug 1 having seen a mild hawkish drift ahead of today's CPI report.
- It sees 24bp of cuts priced for the next decision on Sep 17 (vs 21bp pre-CPI) and 61.5bp of cuts to year-end (vs 56.5bp).
- SOFR implied terminal yield pricing is 4.5bp lower post-release for -2bp on the day at 3.085% (SFRH7), chipping away at modest increases pre-data. It firms up pricing of five cuts from current levels.

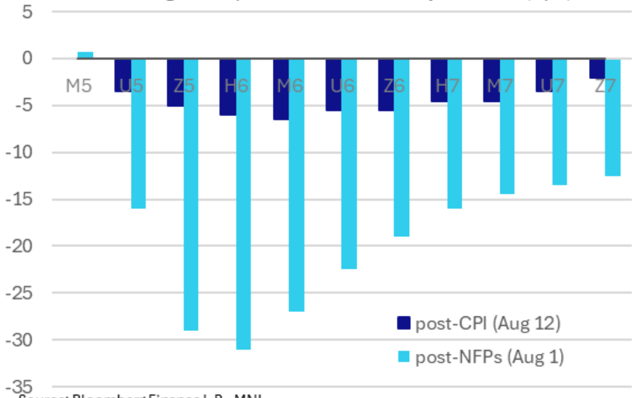
Source: Bloomberg Finance L.P. Dec 2025 FOMC implied cuts from current

FOMC-dated Fed Funds futures implied rates

Meeting	Latest			pre CPI (Aug 12)			*chg in rate*	pre NFP (Aug 1)			*chg in rate*
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)	*bp*	%	step (bp)	cum. (bp)	*bp*
Effective	4.33			4.33				4.33			
Sep'25	4.09	-24.1	-24.1	4.12	-20.9	-20.9	*-3.2*	4.21	-12.0	-12.0	*-12.1*
Oct'25	3.92	-16.7	-40.8	3.96	-16	-36.7	*-4.1*	4.12	-9	-21	*-20.0*
Dec'25	3.72	-20.5	-61.3	3.76	-20	-56.7	*-4.6*	3.98	-15	-35	*-26.0*
Jan'26	3.60	-11.5	-72.8	3.66	-11	-67.5	*-5.3*	3.90	-7	-43	*-30.0*
Mar'26	3.47	-12.9	-85.7	3.53	-12	-79.7	*-6.0*	3.79	-11	-54	*-31.5*

Source: Bloomberg Finance L.P., MNI.

Change In Implied Yields since major events (bps)

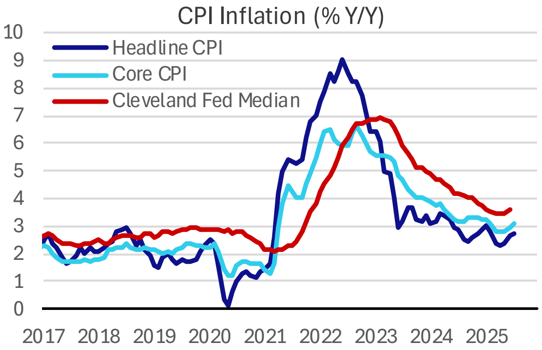


Source: Bloomberg Finance L.P., MNI

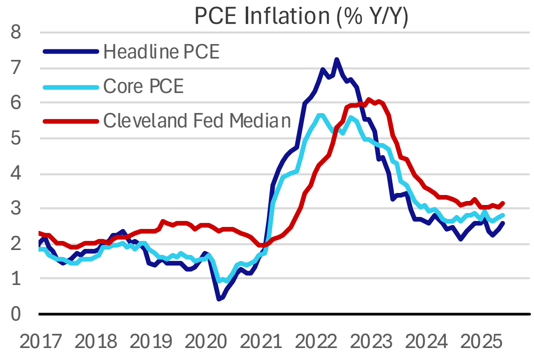
Implied Yields At Bottom Of Expected Rate Cutting Cycle (%)

Source: Bloomberg Finance L.P., MNI. Minimum implied yield looking out to end-2027

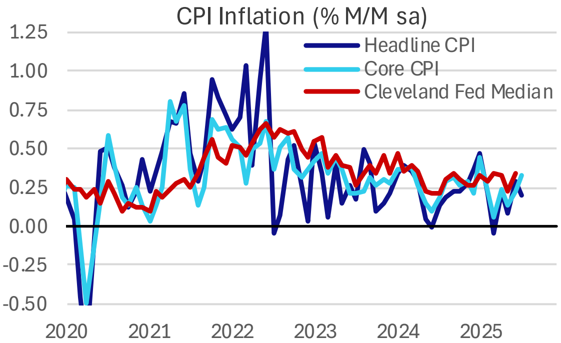
Inflation Overview



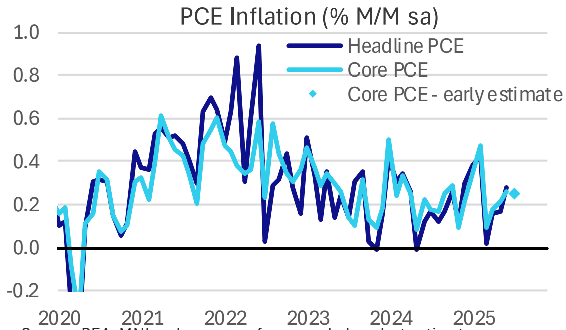
Source: BLS, Cleveland Fed and MNI



Source: BEA, Cleveland Fed and MNI

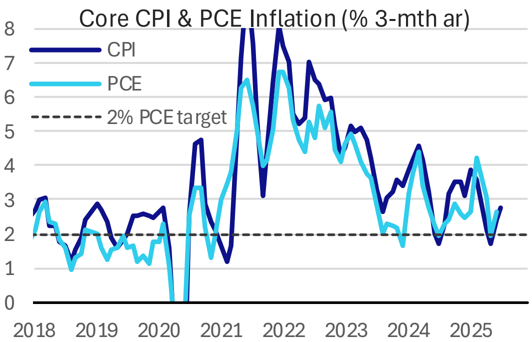


Source: BLS, Cleveland Fed and MNI

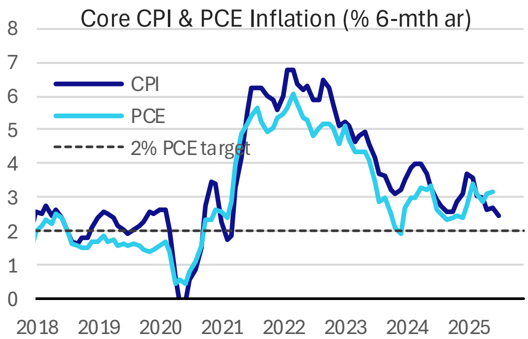


Source: BEA, MNI and average of unrounded analyst estimates.
Historical values don't show estimates for latest revisions

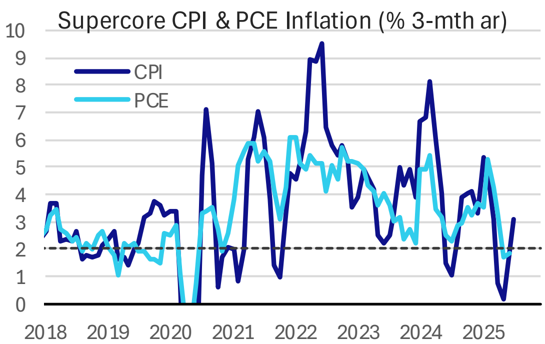
Recent Trends



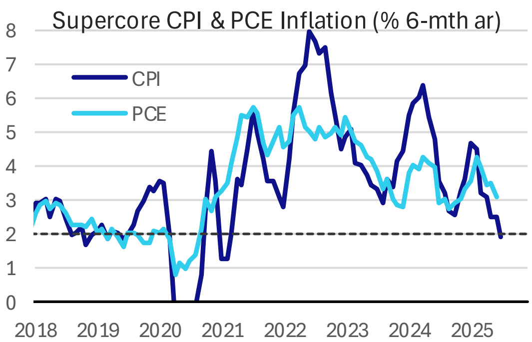
Source: BEA, BLS, MNI.



Source: BEA, BLS, MNI.

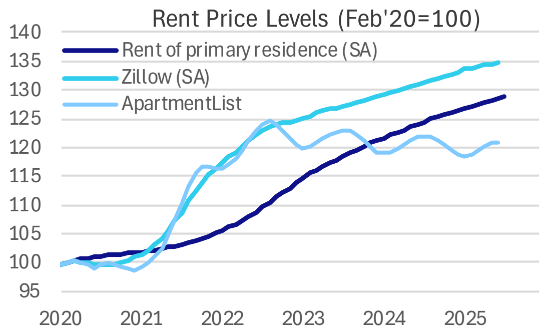


Source: BEA, BLS, MNI. Core services ex OER & primary rents

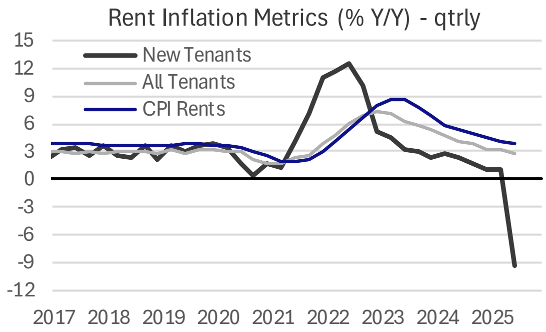


Source: BEA, BLS, MNI. Core services ex OER & primary rents

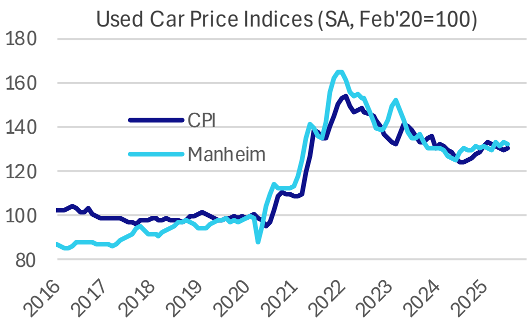
Specific Categories



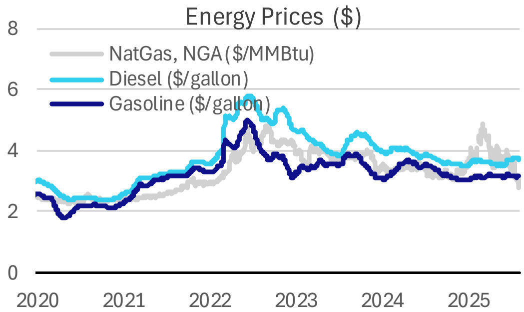
Source: ApartmentList, BLS, Zillow, MNI



Source: BLS, MNI

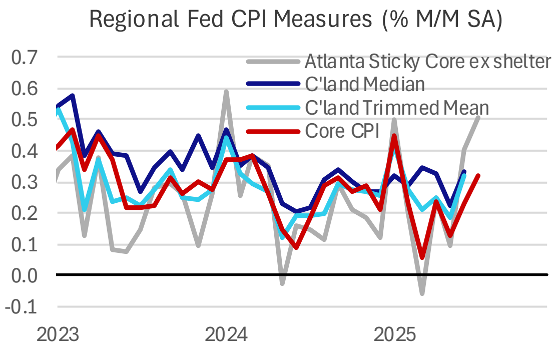


Source: Bloomberg Finance L.P., MNI

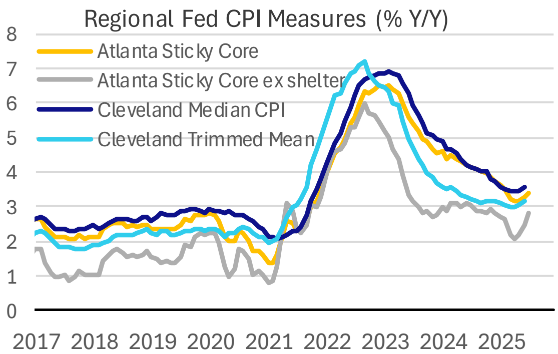


Source: Bloomberg Finance L.P., MNI

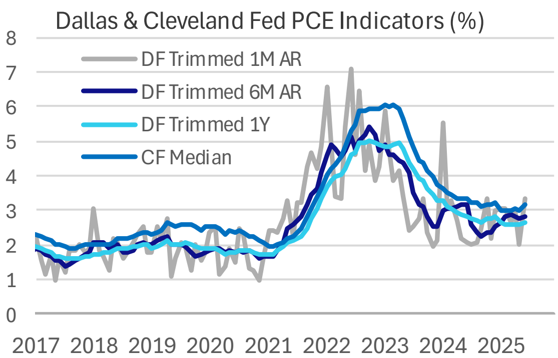
Regional Fed Inflation Indices



Source: Bloomberg Finance L.P., MNI



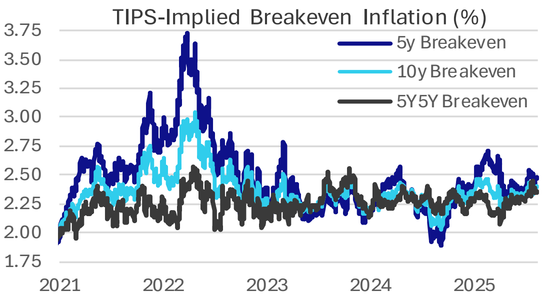
Source: Bloomberg Finance L.P., MNI



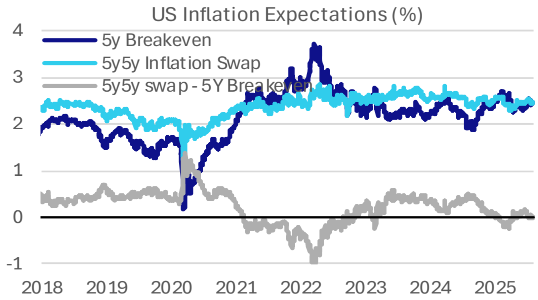
Source: Bloomberg, MNI

(The PCE measures will typically lag CPI by one month in this publication)

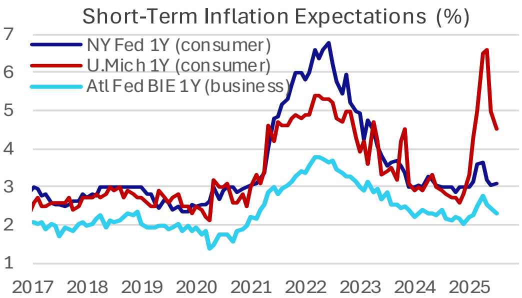
Inflation Expectations



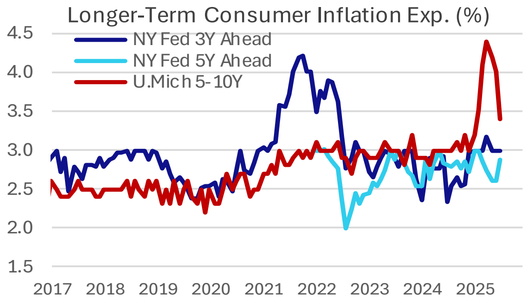
Source: Bloomberg, MNI



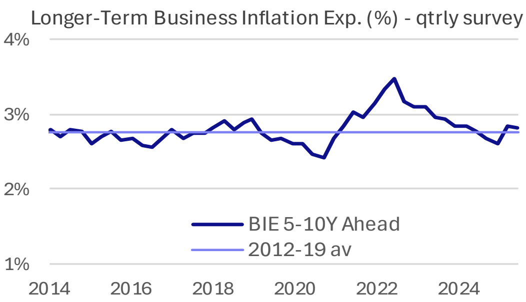
Source: Bloomberg, MNI



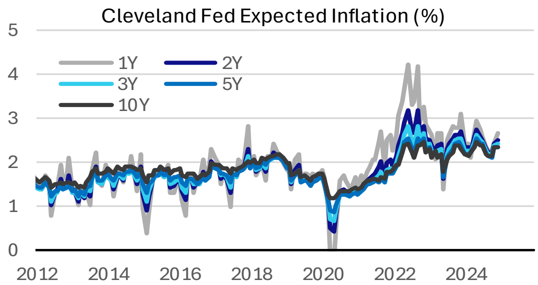
Source: Atlanta Fed, NY Fed, U.Mich & MNI



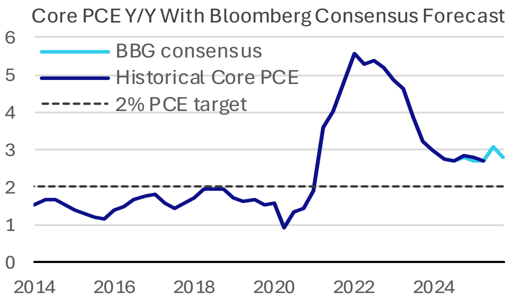
Source: Bloomberg Finance L.P., MNI, NY



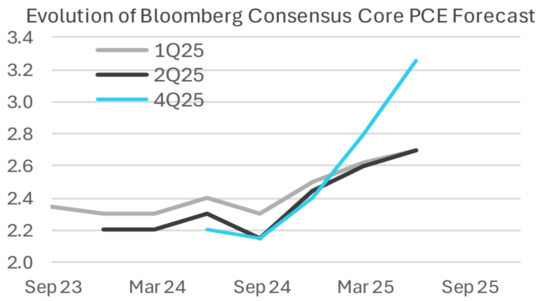
Source: Atlanta Fed & MNI



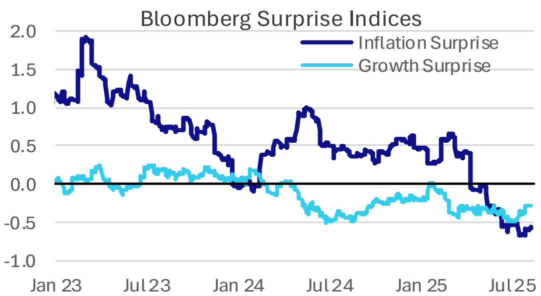
Model using Tsy yields, inflation data, inflation swaps & survey-based measures of expectations. Source: Cleveland Fed, MNI



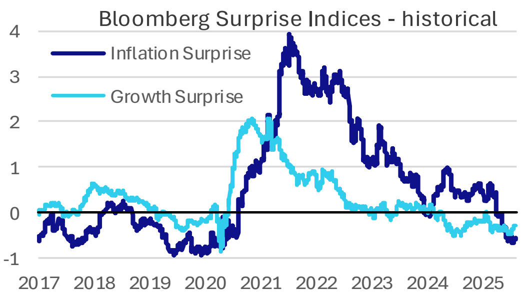
Source: Bloomberg Finance L.P. & MNI - shown quarterly



Source: Bloomberg Finance L.P. & MNI - shown quarterly



Source: Bloomberg Finance L.P., MNI



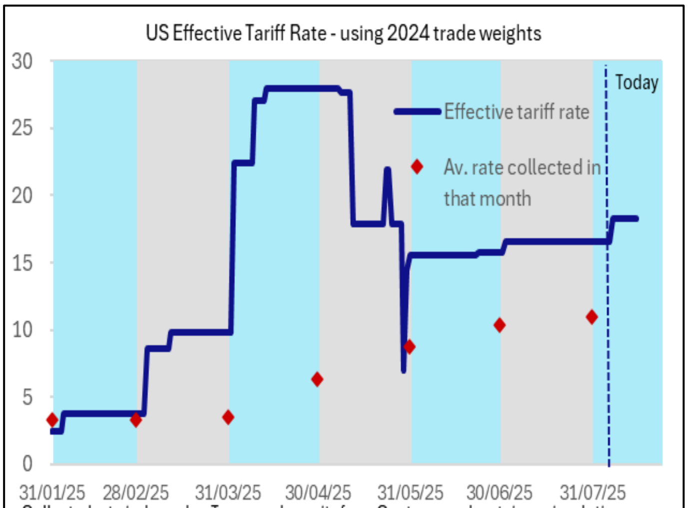
Source: Bloomberg Finance L.P., MNI

We wrote the following ahead of the CPI release on tracking tariff passthrough:

Still Some Way For Full Tariff Impact To Show On Prices

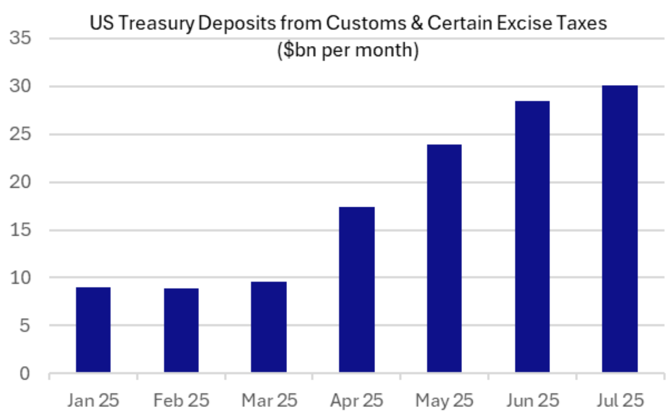
July should more meaningfully show the impact from the implementation of April reciprocal tariffs, with a rough consensus of three months from tariff implementation to more notable consumer price increases. That factors in the time taken for shipments, a front-loading of imports that built up inventories and points including importers using the automatic payment transfer system being able to delay their tariff payments for up to 1.5 months. This three-month period has been cited by FOMC members such as Cleveland Fed's Hammack and was also in the most recent Beige Book with "Contacts that plan to pass along tariff-related costs expect to do so within three months."

That said, latest monthly tariff revenue for July suggests we're still some way off seeing the full impact from tariffs on prices. The effective tariff rate currently stands at 18.3% according to Yale Budget Lab calculations (pre-substitution, i.e. keeping trade shares constant). In contrast, the $30bn of Treasury deposits from customs and certain excise duties in July was worth 11.0% of goods imports in 2024. That's up from 10.3% in June, 8.7% in May, 6.3% in April and 3.0% in Dec 2024 prior to the second Trump administration to give a sense of baseline. (Note that this 11.0% rate would be 10.3% if using a 12mth sum up to latest data for June owing to the sharp rise in imports in 1Q25. This dynamic approach with recent data can be misleading).

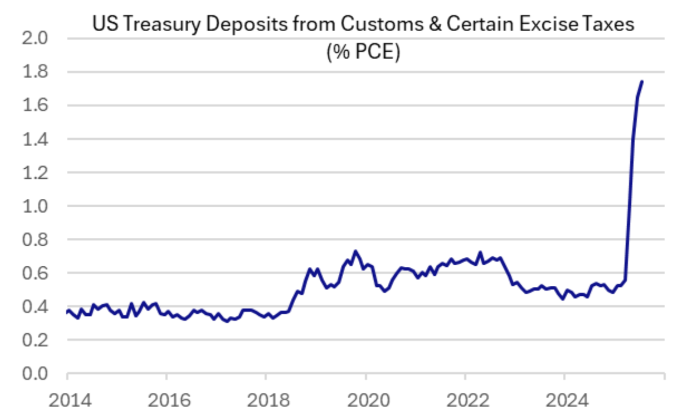


Collected rate is based on Treasury deposits from Customs and certain excise duties
Source: US Treasury, Yale Budget Lab and MNI.

Alternatively, these tariff revenues in July were worth ~1.7% of overall personal consumption expenditure, an increase of 1.3pp under the Trump administration so far. Of course, this doesn't give insight into burden sharing across importers, businesses and consumers.



Source: US Treasury, MNI



Source: US Treasury, MNI

On the former, June US import prices showed a partial correction stronger for those from China after what had looked like some taking of a tariff hit in April and May (implied by lower than usual import prices), but import prices more generally haven't shown much concession. However, it's still early to see evidence in the post-reciprocal tariff period so the Chinese-specific data could for now at least be more representative. NEC Director Hassett said on Aug 4 that data shows tariffs are being borne by foreign producers, although admittedly the extent to which they're being borne is vague in that headline.

Goldman Sachs have written in more detail on tariff passthrough. Writing "at this early stage" relying primarily on evidence from the initial tariff increases on imports from China rather than the April "reciprocal" tariffs:

- "We find that US import prices on tariffed goods have declined somewhat, suggesting that foreign exporters have absorbed some tariff costs by lowering their export prices to the US, unlike during the 2018-2019 trade war."

- They find that a 1pp increase in the product-level tariff rate led to a 0.25% decline in import prices over the first three months of implementation, with minimal impact thereafter. “Our estimates imply that foreign exporters had absorbed 14% of the cost of all tariffs implemented so far through June, but that their share will rise to 25% if the more recent tariffs follow the same pattern as the earliest tariffs on China.”
- “We find that US consumers had absorbed 22% of tariff costs through June but that their share will rise to 67% if the recent tariffs follow the same pattern as the earliest ones. This implies that US businesses have absorbed more than half of the tariff costs so far but that their share will fall to less than 10%.”
- “Our analysis implies that tariff effects have boosted the core PCE price level by 0.20% so far. We expect another 0.16% impact in July, followed by an additional 0.5% from August through December. This would leave core PCE inflation at 3.2% year-over-year in December, assuming that the underlying inflation trend net of tariff effects is 2.4%.”

MNI Policy Team Insights

MNI INTERVIEW: Trump Missed Window For Significant Fed Change

By Evan Ryser (Aug 7, 2025)

WASHINGTON - The Trump administration is unlikely to score any major reforms of the Federal Reserve because there is no clear effort to pressure Capitol Hill for the kind of legislative changes that would be needed, Gary Richardson, the Fed system's first official historian, told MNI.

"By Trump spending his time in jawboning the Fed, he probably missed the window to go to Congress, at least the window before the mid-terms," said Richardson in an interview, adding that there are limits to what systemic changes a new Federal Reserve chair, which Trump will get to appoint soon, could obtain.

The President and his advisers have asserted that they will reshape monetary policymaking and that is unlikely to happen, unless Congress acts.

“Trump doesn't have much time before the mid-term elections, maybe a year. To have Congress change a major piece of legislation takes a lot of debate. That would also come up against a huge amount of lobbying and pressure from businesses and Wall Street that have interests in this," said Richardson.

CONGRESSIONAL INTENT

Trump has promised to nominate someone who backs lowering the Fed's benchmark overnight interest rate, which he wants slashed as low as 1% from the current 4.25%-4.50% range.

Congressional intent concerning the independence of the Fed matters because it protects the public from the politicization of monetary policy. In 1935, the Senate and House designed the Fed's leadership structure to limit the President's influence on monetary policymaking, which Richardson describes in a recent paper, along with former Fed research director David Wilcox.

"The Banking Act of 1935 is the foundation for Fed independence, not the Fed-Treasury accord" of 1951, said Richardson, who served at the first official historian of the Federal Reserve System from 2012 to 2016. "Congress, the bankers and the businessmen understood this before economists did."

Perhaps the closest parallel to today were the events before the 1951 accord when President Truman wanted long-end Treasury yields pegged at low rates, Richardson said. "The order of magnitude between what people worry about with Arthur Burns or William McChesney Martin and what Trump's been talking about today is really different."

"Trump is saying he wants rates 3 percentage points lower. He really wants to change the cost of government borrowing," he said. "No president has really asked the Fed for this much since Truman." And even then "Truman asked for a lot more because he asked for the Fed, not to peg the short term rate, but to peg the interest rate on long term government bonds and dramatically expand the balance sheet."

"No one's ever asked the Fed for that much since then and I assume the system's response is going to be the same. It's too big an ask," he said, noting inflationary risks. (See: MNI INTERVIEW: FOMC To Go Own Way If Chair Lacks Credibility)

Current federal law does not support such a request and any presidential demand for FOMC members to resign if they do not agree with the president would be shirking statutory obligations, he said, citing former New York Fed President Allan Sproul.

"The Congressional Record is very clear that what Truman asked the Fed to do, it should not do, and what Trump is asking the Fed to do, it should not do."

REGIME CHANGE

National Economic Council Director Kevin Hassett, ex-Fed governor Kevin Warsh, and Fed Governor Christopher Waller have emerged as top contenders to be the next chair. Hassett and Warsh have advocated "regime change" at the Fed. (See: MNI POLICY: Regional Fed Banks Could Face Revamp Under Warsh)

"It may be useful to rethink the Fed and its structure and the leadership, but to do that you have to go to Congress. The Fed and its structure is set in law, and the objectives of the Fed are set in federal law."

"Can they get things changed by just changing some personnel? Probably not," said Richardson, an economics professor at the University of California, Irvine. "The wholesale change that Warsh and others have advocated, that's only been done by getting Congress to intervene and change the law."

MNI INTERVIEW: Nimble Fed Needed To Tackle Slowdown - Koenig

By Jean Yung (Aug 7, 2025)

WASHINGTON - Federal Reserve officials must be willing to entertain more aggressive easing amid new signs of slowing nominal demand growth and restrictive monetary policy, Evan Koenig, former senior aide to the president of the Dallas Fed, told MNI.

Last week's second quarter GDP report showed a marked slowdown in nominal demand measures to rates more consistent with 2% inflation over the long run. It is indicative of monetary policy that has shifted to a restrictive stance after months at neutral, and the FOMC should be prepared to take action to keep demand from further decelerating, Koenig said.

"In a way this is encouraging to see the slowing in demand growth, but it could easily get out of hand and policymakers need to up the level of vigilance right now. We’re in a dicey situation and you have to be prepared to be nimble on policy," he said in an interview.

"That does mean the outlook is more uncertain. You could see a larger-than-expected move. It’s certainly within the realm of possibilities." (See: MNI INTERVIEW: Fed September Cut Not Assured - Rosengren)

NEUTRAL RATE FALLING

Until recently, Koenig deemed monetary policy to be approximately neutral, with the economy running at full employment, steady demand growth and inflation hovering above target in a 2.6%-2.8% range.

But a likely fall in the short-run neutral real interest rate as uncertainty over President Trump's tariffs froze consumer and business decision-making alike has rendered policy restrictive, in spite of the FOMC keeping rates on hold this year, Koenig said.

Growth in nominal final sales to private domestic purchasers, a core measure of demand that strips out government spending, inventories and net exports, fell back to 4.7% (annual percent change) in the second quarter after holding steady in a 5.25%-5.5% range over the past year, while the more volatile nominal GDP growth measure dropped to 4.5% from 5%-plus.

That slowdown has primarily occurred over the first two quarters of 2025, which saw 4.1% growth in both nominal GDP and nominal private domestic final purchases, Koenig noted. (See: MNI INTERVIEW: Tariffs Pushing Services Into Contraction - ISM)

"There' was no reason to be happy with where we had been, but there was some stability there. What we may be seeing are the first signs of a policy shift to a restrictive policy stance," he said. "Holding the funds rate constant is by no means the same thing as holding the stance of policy constant."

EMPLOYMENT IN GOOD SHAPE

The FOMC is in a tricky situation also because policymakers can't be sure whatever reduction in the neutral real rate that has occurred could be transitory – lasting only as long as trade uncertainty persists, Koenig said.

"That would be a justification for the wait-and-see attitude that the FOMC has taken, hoping that enough uncertainty will resolve itself that by the next FOMC meeting they'll have a better idea of what to do," he said.

And despite a July jobs report showing the worst three months of hiring since the pandemic, the labor market continues to be in good balance, Koenig said.

Measure of slack – the unemployment rate and unemployed-to-vacancies ratio – have varied within very narrow ranges over the past year, and we have yet to see a surge in layoffs or initial claims for jobless benefits, he said.

"All of these things suggest we're not past the tipping point."

MNI INTERVIEW: Tariffs Pushing Services Into Contraction - ISM

By Evan Ryser (Aug 5, 2025)

WASHINGTON - Trade policy will drag U.S. services into contraction for the next couple months as demand remains weak and inflation builds, Institute of Supply Management survey chief Steve Miller told MNI on Tuesday, adding he expects the Federal Reserve to remain in a wait-and-see stance.

"I don't see anything here that says we should expect the numbers to go up over the next couple of months," he said about the services PMI. "I wouldn't be surprised if we're under 50 next month."

The ISM services PMI fell 0.7 pp to 50.1 in July, below expectations for a rebound to 51.5. Respondents expressed concern over tariffs and noted that the import duties are flowing into prices, Miller said.

The average PMI over the last 12 months sits at 52.3. "I'd expect the average to come down for at least the next two months," Miller said. "If there's a [September] rate cut, maybe the October number will get up again to where it was last year."

The ISM chief is expecting the Fed to remain in a wait-and-see stance, because of building price pressures, but a single 25 basis point rate cut by the end of the year looks likely, he said. (See: MNI INTERVIEW: Fed September Cut Not Assured - Rosengren)

DECLINING EMPLOYMENT

The July reading marks the 12th time in the last 13 months in which the index surpassed the 50 breakeven point that separates expansion from contraction. The prices index increased 2.4 pps to 69.9, the highest since October 2022. "It's certainly coming through in commentary that the tariffs are actually impacting prices paid now."
(See: MNI INTERVIEW: Inflation Could Stifle 2025 Fed Cuts-George)

The survey's measure of services employment fell to 46.4, the lowest level since March, from 47.2 in June. The reading followed the release last week of the Labor Department's surprisingly soft U.S. employment report.

Miller was surprised by the drop in exports and the acceleration in the decline in employment. "I had been second-guessing a little bit when the BLS numbers were strong. Seeing how low this was, before the BLS revised numbers came out, it was a bit of a shocker. It makes a five month run of really weak employment numbers from the index standpoint," he said.

"It's not dramatic reduction in the numbers, but we'll continue to watch that and see if layoffs and reduction in force commentary comes through next month," he added.

WEAK DEMAND

New orders came in weak at 50.3, and have been flat for five months with an average of 50.1 "That's not a good sign with backlog orders contracting."

"We have too much inventory. The number is high," Miller said. "The business activity number 52.6 is a low number. The new orders also at 50.3 is a low number. Those don't show us that we're going to see high business activity going forward."

MNI INTERVIEW: Mounting BLS Pressure Harmful For Data - Groshen

By Evan Ryser (Aug 5, 2025)

WASHINGTON - Data produced by the Bureau of Labor Statistics was already in increasing jeopardy even before the shock firing of the agency's commissioner following weaker-than-expected jobs numbers, and data quality could continue to suffer from the impacts of underinvestment, ex-BLS Commissioner Erica Groshen told MNI, expressing concern about perceptions of integrity under the next commissioner.

"For the next few months, I am worried about the continued deterioration of the data because of the staff losses at BLS, the funding issues, and the restrictions on their spending money. Some chickens may come home to roost because they have staff losses in excess of 15% and that's a real problem," she said in an interview.

Groshen is not yet worried about data manipulation through political influence, but she is concerned about how recent developments will affect data collection and the staff's own sense of mission.

"I worry about the impact of all that collateral damage that isn't aimed at the statistical agencies themselves, but is characteristic of what's going on and is really problematic for them. I do worry about a loss of morale in the agency," Groshen said.

In the past few years, the BLS has faced tighter budgets and falling response rates to its surveys. In recent mon0ths, it has faced staff shortages brought on by a hiring freeze the President declared in January. The agency's budget has shrunk in inflation-adjusted terms over the past decade, even as the cost of collecting economic data has risen. From fiscal year 2016 to 2024, for instance, the BLS budget rose about 16%, while inflation climbed twice as fast. (See: MNI INTERVIEW: US Data Already Suffering From Underinvestment)

MORE OF A CHALLENGE

President Trump's decision to fire the head of the BLS on Friday will further strain the agency and it will only make the job harder for the next commissioner.

The next "commissioner, no matter what, will come into the job facing more of a challenge than normal, because people will worry about the criteria used to select the person and whether there is some commitment on the part of the commissioner to try and manipulate the data," she said. "That hasn't been the case with people who have become commissioners before."

"What I'm not worried about right away is direct manipulation," she said. Groshen praised Acting Commissioner Bill Wiatrowski, who she promoted to Deputy Commissioner in 2015. "He will do a fine job, as good a job as can be done under those circumstances. And I don't worry about him allowing any kind of manipulation or any of that sort."

GROUNDS FOR CONCERN

"However, if you've got a new commissioner who comes in with some kind of group of other political appointees, and they start changing the norms and the practices of BLS, then there would be serious grounds for concern," said Groshen, who ran the agency from 2013 to 2017. (See: MNI INTERVIEW: Ex-Chief Says BLS Can Withstand Trump Pressure)

"If that Commissioner actually wants to try to manipulate the data, they are going to run into the fact that the process is not set up to allow manipulation of the data. They would have to fundamentally change how the data are prepared and the pre-release steps for those programs," she said. "That would be very noticeable to the staff and they would I'm sure resist doing that. You could get resignations, whistleblowers, that sort of thing."

To determine whether the next commissioner is heading in the wrong direction, Groshen will be looking to see whether that person includes the commissioner actually having a role in finalizing the numbers, having sign off from the Secretary of Labor or the White House before there's a final release, or delaying or speeding up data releases.

Groshen said Friday's jobs report showed big revisions, "but they were not way out of line," she said. "That happens and it tends to happen more around inflection points, turning points in the business cycle." A lot of it appears to have something to do with state and local education jobs, who usually report late. "Seasonal changes were also a little bit larger than normal."

MNI INTERVIEW: Ex-Chief Says BLS Can Withstand Trump Pressure

By Evan Ryser (Aug 2, 2025)

WASHINGTON - The public can trust that the Bureau of Labor statistics will continue to produce gold-standard, scientifically-produced numbers, even amid pressure from President Donald Trump and continuing funding challenges, ex-BLS Commissioner William Beach told MNI Friday.

"I have every reason to believe that these numbers will be as good as they are right right now, gold standard numbers, best produced in the world, as long as they [BLS] have the budget to do so. It won't be the personnel issues involved here. It will be a budgetary issue," said Beach, who served as BLS commissioner under Trump in his first term.

Even if Trump picks a radical person to lead the BLS and they are confirmed by the Senate, Beach expects the BLS to withstand such a person. "There's no way for political manipulation of these numbers to occur. The commissioner doesn't see the numbers until the numbers are there and have been loaded into the computers for distribution. That's Wednesday prior to the Friday release."

HONEST

President Trump said the Friday jobs report was "rigged" and he said he has "three very good" people in mind for the job. "I put somebody in who is gonna be honest. That's all we want," he said.

BLS commissioner, Dr. Erika McEntarfer, appointed by Joe Biden, was confirmed by the Senate in January last year in an 86-8 vote. Among the bipartisan group that voted for McEntarfer was current-Vice President JD Vance.

A White House official and a BLS official confirmed McEntarfer has been fired. BLS said Deputy Commissioner William Wiatrowski will serve as Acting Commissioner for BLS.

Beach, who Trump nominated as BLS commissioner in 2017, is advocating Congress to take steps to strengthen the position so that it would be harder for a president to fire a BLS commissioner. "The President has the right. Does the President want to exercise that right? That's the question that's always been asked and answered in the negative until now."

PROCEDURES

In the meantime, BLS procedures are designed to be decentralized to avoid opportunities for interference and "certainly can" withstand such one new leader and can continue to produce gold-standard labor market indicators, Beach said.

For the Employment Situation Report, BLS staffers work in independent groups where data is collected and processed before their work is combined by about 40 people into a single collection. The report is then written by about five people, Beach said.

"At no point in this whole process does the commissioner see anything. It doesn't see the original data, the process data, the research that goes into it, the writing of the report, until the report is ready to essentially go out," he said. "There is one moment where the commissioner can see the draft final report, but all the numbers are locked in. And I can tell you, as commissioner, I was not allowed to change very many words, and they were pretty suspicious if I tried to change a word."

"It's very difficult for me to imagine how anybody could think that that system would be subject to political interference. It's really been designed to thwart any effort in that direction," Beach said. He was confident that top-tier employment reports will continue to receive the attention needed, even if Congress squeezes funding to statistical agencies. (See: MNI INTERVIEW: US Data Already Suffering From Underinvestment)

"BLS is a big enough organization that can move resources from lower priority to higher priority," Beach said. "There's dozens of reports BLS does, but seven of them are required by Congress to always be done, come hell or high water. I don't think that those reports are at risk right now."