



# Core Inflation Firms, but Fed Still Has Room to Cut

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## Tariffs Lift Core to Six-Month High

- ▲ Headline CPI rose 0.2% in July, down from 0.3% in June, and matching consensus expectations.
- ▲ Year-over-year headline inflation held at 2.7%; core CPI climbed to 3.1% from 2.9%, the largest monthly gain since January.
- ▲ Tariff-related price pressures emerged in select goods categories, offsetting declines in energy and lifting the core.
- ▲ Shelter moderated to a 0.2% monthly gain, while energy fell 1.1% as gasoline prices dropped 2.2%.
- ▲ Food prices were flat: grocery prices fell 0.1%, while dining out costs rose 0.3%.
- ▲ Strongest gains came in medical care (+0.7%) and airline fares (+4.0%), while lodging away from home fell 1.0%.
- ▲ Market expectations for a September Fed rate cut remain intact following weak July jobs data and steep downward payroll revisions.
- ▲ **Data quality concerns are growing after budget cuts and partial suspensions in CPI data collection at the Bureau of Labor Statistics (BLS).**

## Inflation Moderates Overall, but Core Ticks Higher

U.S. consumer prices increased moderately in July, with headline CPI rising 0.2%—slowing from June’s 0.3% gain—and holding steady at 2.7% year-over-year. The increase was in line with expectations, but the 0.3% rise in core CPI marked its strongest monthly advance since January, lifting the annual rate to 3.1% from 2.9%.

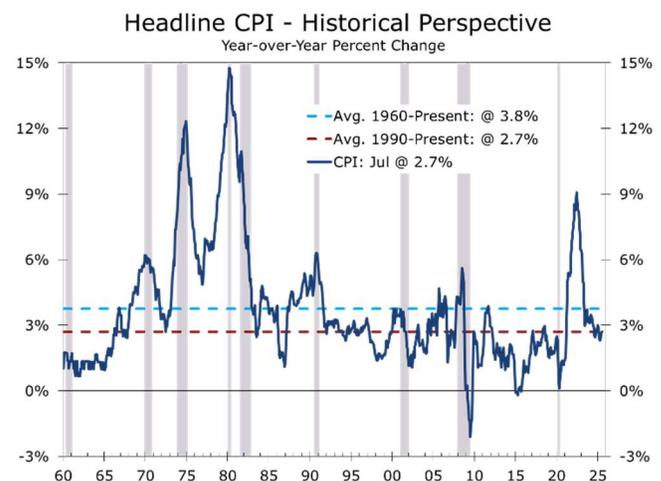
The uptick in core reflected firmer pricing for tariff-affected goods, even as broad inflation pressures remained contained. The three-month annualized pace for core CPI is near 2.4%, consistent with a gradual convergence toward the Fed’s 2% target.

## Tariffs Help Lift Inflation to a Six-Month High as Shelter and Energy Keep Headline CPI Cool.

### Energy Drags, Shelter Cools Further

Energy prices fell 1.1% in July, led by a 2.2% decline in gasoline. Natural gas dropped 0.9% and electricity edged down 0.1%. On a year-over-year basis, the energy index is down 1.6%, with gasoline nearly 10% lower and fuel oil off 2.9%.

Shelter costs—which account for roughly 35% of the CPI and about 44% of the core—rose just 0.2%, the slowest monthly gain since early spring. Owners’ equivalent rent and primary rent each rose 0.3%, but lodging away from home fell 1.0%. With market-based rent measures still soft, further deceleration in shelter inflation is likely.



Source: Bureau of Labor Statistics (BLS)



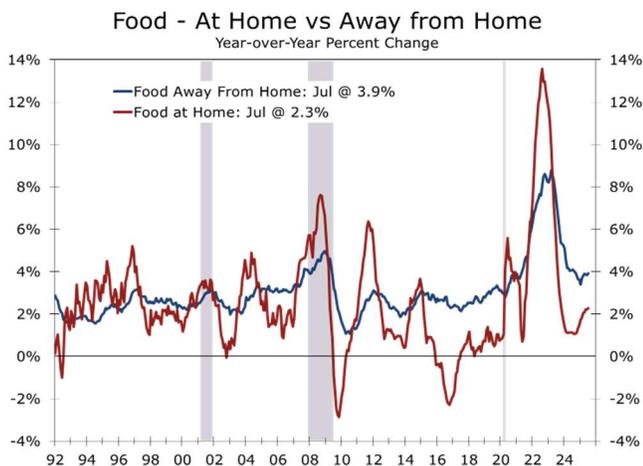
### Food Prices Hold Steady

The food index was unchanged, ending a two-month streak of 0.3% gains. Grocery prices fell 0.1%, driven by declines in “other food at home” (-0.5%), nonalcoholic beverages (-0.5%), and cereals/bakery (-0.2%). Dairy rose 0.7%, and meats, poultry, fish, and eggs gained 0.2%, though egg prices fell sharply (-3.9%).

Food away from home rose 0.3%, with full-service meals up 0.5% and limited-service meals up just 0.1%. Over the past year, grocery prices are up 2.2% versus a 3.9% gain for restaurant prices. Many chains report tighter margins, as beef and labor costs remain elevated. Price increases are harder to pass through to middle- and lower-income households, as reflected in smaller gains at limited-service restaurants, including fast-food and quick-service outlets.

*Flat food prices and limited tariff effects are slightly easing pressure on household budgets.*

Tariff pass-through remains concentrated in a handful of import-heavy sectors, including furniture, linens and curtains, washing machines, and audio equipment. Broad-based effects remain absent. Apparel prices rose just 0.1% in July and have fallen 0.2% over the past year. Men’s apparel is down 0.3% year-over-year, while women’s and girls’ apparel are down 0.8%. Footwear prices are firming—up 1.4% in July after a 0.7% gain in June—though still just 0.9% higher over the past year.

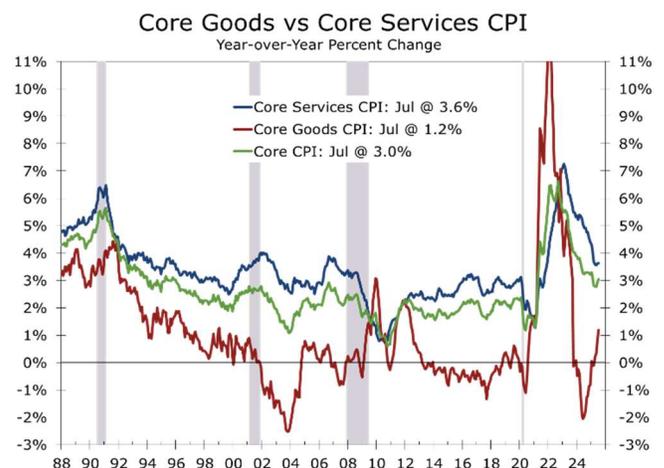


Source: Bureau of Labor Statistics (BLS)

Core services showed more consistent strength: medical care rose 0.7%, including a 2.6% jump in dental services, and airline fares surged 4.0% after dipping in June. Recreation and household furnishings each rose 0.4%, while communication prices fell 0.3%.

Real average hourly earnings rose 0.1% in July, and with a 0.3% longer workweek, real weekly earnings rose 0.4%. Year-over-year, real hourly pay is up 1.2% and weekly earnings 1.4%. The rebound suggests easing inflation is allowing nominal wage gains to boost purchasing power, offering some relief to retailers after sluggish sales. **The CPI report also reinforced expectations for a September Fed rate cut, with cooling shelter costs and contained price pressures giving policymakers room to ease—though faster tariff pass-through remains a risk.**

The release comes amid growing concerns over BLS data quality. Budget cuts and staffing reductions have halted CPI data collection in one city each in Nebraska, Utah, and New York, and trimmed coverage in other areas by about 15%, increasing reliance on “different cell” imputations from broader geographic samples. These imputations surged to 35% in June from 8% a year earlier. While not seen as systematically biasing the CPI, the greater use raises the risk of volatility that could complicate policy decisions.



Source: Bureau of Labor Statistics (BLS)

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