

US inflation rises more than expected as tariffs begin to bite

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US inflation climbed to 2.7 per cent in June, surpassing expectations and signalling that Donald Trump's tariffs are hitting prices.

The annual consumer price index announced yesterday was up from 2.4 per cent in May and above expectations of 2.6 per cent among analysts surveyed by Bloomberg. But in the wake of the data publication, the US president kept up his campaign to push the Federal Reserve to cut interest rates.

“Consumer Prices LOW,” he posted on his Truth Social network. “Bring down the Fed Rate, NOW!!!”

The data from the Bureau of Labor Statistics comes as Trump continues his tariff war with Washington's trading partners, threatening to impose large levies on importers from next month if they do not reach trade deals.

“Today's report showed that tariffs are beginning to bite,” said Omair Sharif at Inflation Insights.

Trump has announced a host of tariffs since returning to office, setting a baseline rate of 10 per cent and introducing an array of sector-specific levies. He has delayed the introduction of steeper reciprocal duties, previously due to take effect last week, until August 1.

“The effects of tariffs are finally showing through in inflation, although still in a modest way, suggesting that businesses have so far absorbed a significant share of the impact,” said Eswar Prasad, economics professor at Cornell University. He added: “This is unlikely to be tenable, especially if Trump follows through with his recent tariff threats.”

June's inflation rise was fuelled in part by higher food prices, but offset by weaker commodity prices.

Annual core inflation, which strips out more volatile food and energy prices, rose 2.9 per cent, in line with expectations.

But several analysts emphasised that the core figure was depressed by the weak second-hand car market.

Traders in the futures market slightly reduced their bets on interest rate cuts after the data publication, but still expect roughly two quarter-point reductions by the end of the year.

The dollar and longer-dated Treasury yields, which are particularly sensitive to inflation expectations, edged up. US stocks briefly hit record highs before settling back.

“The market is relieved that the number was not worse,” said Andy Brenner, head of international fixed income at NatAlliance Securities.

He added that there had been “a fear . . . of a worse number” after Scott Bessent, Treasury secretary, argued against giving too much weight to one month's figure.

Lou Brien, market strategist at DRW Trading, noted the “muted” market reaction to the figures but added: “We still have the possibility that inflation is lurking around the corner.”

Trump has piled pressure on Jay Powell, Fed chair, and in his social media posts yesterday renewed his call for rates to be cut by three points, which he said would save the country “One Trillion Dollars a year” in debt payments.