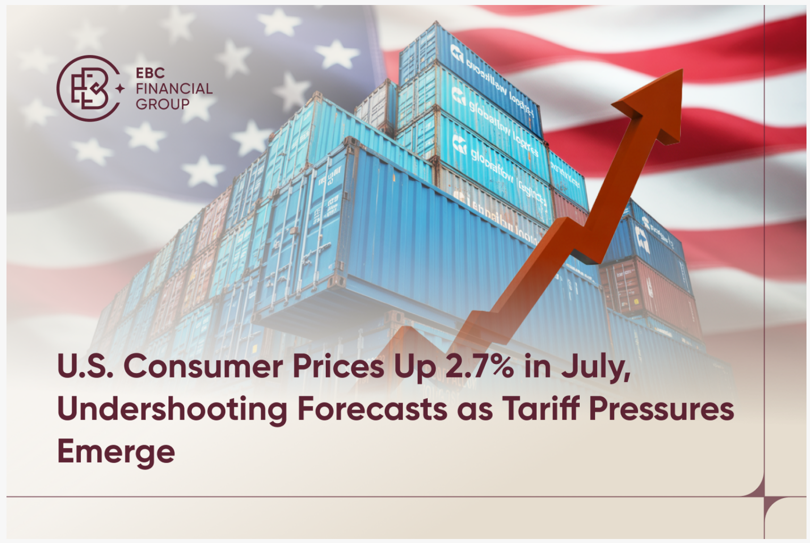
U.S. Consumer Prices Up 2.7% in July, Undershooting Forecasts as Tariff Pressures Emerge

EBC Financial Group notes that softer-than-expected price pressures keep rate cut expectations alive despite political and economic headwinds.



As U.S. inflation undershoots forecasts at 2.7% in July, EBC Financial Group highlights how tariff pressures and rate cut expectations are shaping market sentiment and cross-border capital flows.

DC, UNITED STATES, August 18, 2025 /EINPresswire.com/ -- U.S. consumer prices rose 2.7% in July compared with a year earlier, slightly below the 2.8% expected by economists, according to the Bureau of Labor Statistics (BLS). On a monthly basis, the consumer price index (CPI) increased 0.2%, in line with forecasts, while core CPI, excluding food and energy, jumped 3.1% from a year ago, marking the highest reading since February and the biggest monthly increase since January.

The figures suggest that while inflation is edging higher, it remains contained enough for the Federal Reserve to consider cutting rates in September. Market participants reacted positively, with U.S. equities gaining and traders pricing in a near-certain policy shift. EBC Financial Group notes that such inflation dynamics, combined with evolving tariff impacts, will continue to shape market sentiment and cross-border capital flows — areas the firm actively tracks to provide timely market perspectives to institutional and retail participants.

Tariffs Begin to Surface in Key Price Categories

President Donald Trump’s 10% universal tariff on all imports, alongside targeted levies on industries such as steel and aluminum, is beginning to make its way into consumer prices. Household furnishings and supplies rose 0.7% in July after a 1% increase in June, while used cars and trucks gained 0.5%.

However, some tariff-sensitive goods — such as new vehicles and canned fruits and vegetables — saw no price change, suggesting the pass-through effect remains uneven. Energy prices fell 1.1% in the month, cushioning broader inflation, while food prices stayed flat.

Economists remain divided on whether tariffs will cause a one-time spike or sustain upward price momentum.

Labour Market Weakness Adds to Fed's Dilemma

July's inflation report comes alongside signs of strain in the U.S. job market. Earlier this month, the government sharply revised down employment gains for May and June from 291,000 to just 33,000. This slowdown, combined with moderate inflation, has intensified calls for the Fed to loosen policy to support growth.

The BLS, however, is itself under political pressure. Trump recently dismissed its commissioner, alleging bias, and nominated economist E.J. Antoni — a critic of the bureau — to lead it. Budget constraints have also forced the BLS to halt data collection in several cities, prompting concerns over data accuracy.

Policy Outlook and Market Implications

With the Federal Reserve's preferred inflation gauge — the personal consumption expenditures (PCE) price index — due later this month, traders are watching closely for confirmation that inflation remains contained.

David Barrett, CEO of EBC Financial Group (UK) Ltd., noted that the mix of moderate price growth and weakening employment gives the Fed some room to act: "This latest CPI report keeps the September rate cut narrative intact. The real test will be whether incoming data supports a sustained easing cycle or forces the Fed to stay more cautious. Markets are already leaning toward policy accommodation, which means any deviation in the data could trigger sharp swings in currencies, bonds, and equities."

He added that the implications extend well beyond U.S. borders: "Interest rate decisions in Washington ripple through global capital markets. Currency traders, in particular, should be preparing for heightened volatility as the Fed balances domestic pressures with the broader global slowdown."

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