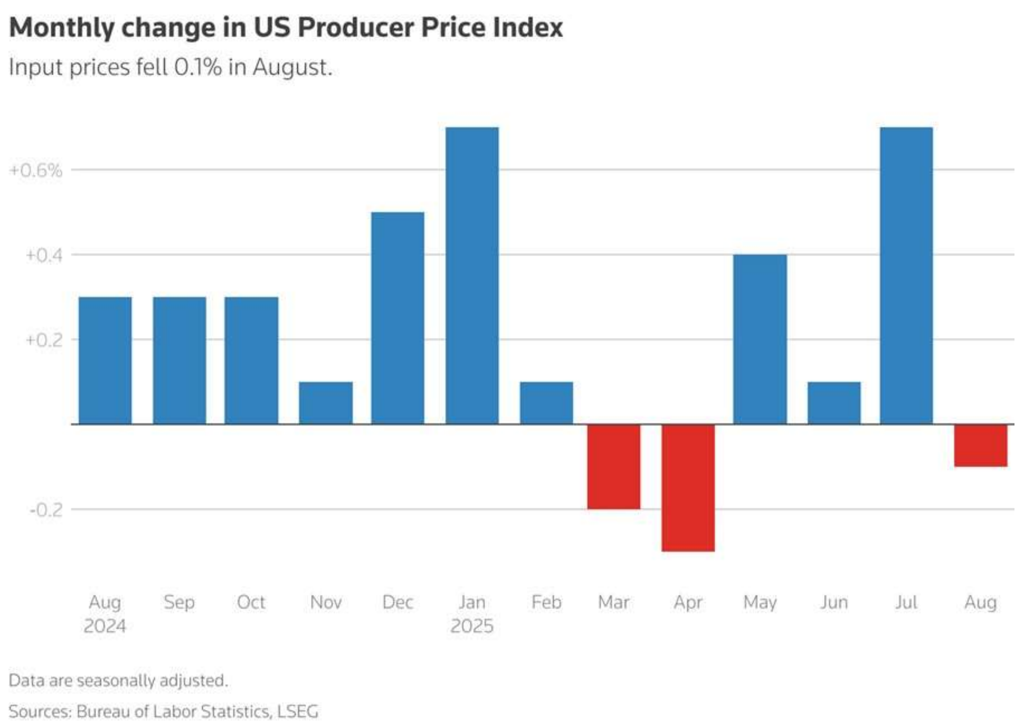
Cooler US producer inflation hints at softening demand

By Lucia Mutikani, Reuters, September 10, 2025

- Producer Price Index falls 0.1% in August
- Goods prices edge up 0.1%; cost of services eases 0.2%
- Producer prices increase 2.6% on year-over-year basis

WASHINGTON - U.S. producer prices unexpectedly fell in August amid a compression in trade services margins and mild increase in the cost of goods, suggesting that domestic firms were probably absorbing some of the tariffs on imports. The lack of strong producer price pressures, despite import duties, could also be signaling softening domestic demand against the backdrop of a struggling labor market.



The Federal Reserve is expected to cut interest rates at its policy meeting next Wednesday, with a quarter-percentage-point reduction fully priced in, after it paused its easing cycle in January because of uncertainty over the impact of President Donald Trump's sweeping import tariffs. "Inflation barely has a heartbeat at the producer level which shows the tariff effect is not boosting across-the-board price pressures yet," said Christopher Rupkey, chief economist at FWDBONDS. "As time goes on, one has to wonder if there are slow-growth reasons and weak economic demand that is keeping inflation in check. There is almost nothing to stop an interest rate cut from coming now."

RETAILERS MAY BE EATING TARIFF COSTS

The Producer Price Index for final demand dipped 0.1% last month after a downwardly revised 0.7% jump in July, the Labor Department's Bureau of Labor Statistics said on Wednesday. Economists polled by Reuters had forecast the PPI would advance 0.3% after a previously reported 0.9% surge in July. A 0.2% drop in services prices accounted for the fall in the PPI. That decrease followed a 0.7% rebound in July. Services last month were held down by a 1.7% decline in margins for trade services, reflecting a 3.9% decrease in margins for machinery and vehicle wholesaling.

"It does look like retailers have been eating tariff costs in recent months," said Stephen Stanley, chief economist at Santander U.S. Capital Markets. "This is quite consistent with the commentary from second-quarter earnings reports and other anecdotal evidence. Firms have consistently said that they have held the line as long as they could, but that they would need to begin selectively hiking prices going forward." The cost of services less trade, transportation and warehousing, however, increased 0.3% while prices for transportation and warehousing services shot up 0.9%. Portfolio management fees increased 2.0%. Airline fares rose 1.0% while the cost of hotel and motel rooms increased 0.9%. Prices for dental services accelerated 0.6%.

Goods prices edged up 0.1% after increasing 0.6% in the prior month. Food prices gained 0.1%, with declines in the costs of eggs and fresh fruits partially offsetting more expensive beef and coffee because of tariffs. Wholesale beef prices surged 6.0% and were up 21.1% from a year ago. Coffee vaulted 6.9% and increased 33.3% on a year-over-year basis. Energy prices fell 0.4%. Excluding the volatile food and energy components, producer goods prices rose 0.3%, indicating some pass-through from tariffs. The so-called core goods prices gained 0.4% in July. In the 12 months through August, the PPI increased 2.6% after climbing 3.1% in July.

FED EXPECTED TO CUT INTEREST RATES

Trump seized on the tame producer inflation to demand a big rate cut from Fed Chair Jerome Powell, whom he derisively calls "Too Late." "Just out: No Inflation!!! 'Too Late' must lower the RATE, BIG, right now," Trump wrote on his Truth Social media platform. Stocks on Wall Street were mostly trading up, with the S&P 500 (.SPX) and Nasdaq Composite (.IXI) indexes hitting intraday record highs. The dollar slipped against a basket of currencies. U.S. Treasury yields fell. Economists, however, cautioned against complacency on inflation, arguing that the PPI readings were too volatile. "More than anything, they likely reflect ongoing adjustments in business strategies to deal with the tariffs," said Oren Klachkin, financial market economist at Nationwide. "Going forward, tariff impacts will be somewhat easier to see in the second half (of the year) now that businesses have drawn down their inventories and certain tariff reprieves have ended."

The impact of tariffs may be reflected in the consumer price data due to be released on Thursday. A Reuters survey of economists forecast the Consumer Price Index increased 0.3% last month after climbing 0.2% in July. Consumer prices are expected to have advanced 2.9% on a year-over-year basis in August after rising 2.7% in July. Core CPI inflation is predicted to have increased 0.3% for a second straight month. That reading would keep the annual increase in core CPI inflation at 3.1%. Firmer consumer inflation would add to labor market weakness in fueling concerns that the economy was in danger of stagflation. The government estimated on Tuesday that the economy likely created 911,000 fewer jobs in the 12 months through March than previously estimated. That data followed the release last Friday of the monthly employment report, which showed job growth almost stalled in August and the economy shed jobs in June for the first time in four and a half years. "The Fed is almost certain to cut rates in light of worsening labor market conditions, but slow growth and higher prices continue to punish American families," said Elizabeth Pancotti, managing director of policy and advocacy at Groundwork Collaborative.

Billionaire CEO who voted for Trump sounds the alarm on Fed attacks

Matt Egan, CNNMoney, Sep 8, 2025

Ken Griffin, who has said he voted for President Donald Trump last fall, warns the White House attacks on Fed independence could backfire by lifting interest rates and worsening inflation. While many CEOs have stayed silent during President Donald Trump's attacks on the Federal Reserve, hedge fund billionaire Ken Griffin is speaking out about the dangers. Trump risks "stoking both higher inflation and higher long-term rates" by undermining the independence of the Fed, Griffin co-wrote in an op-ed in The Wall Street Journal on Sunday titled "Trump's risky game with the Fed." "The president's strategy of publicly criticizing the Fed, suggesting the dismissal of governors and pressuring the central bank to adopt a more permissive stance towards inflation carries steep costs," wrote Griffin, CEO of Citadel; and Anil Kashyap, a professor at the Chicago Booth Business School and a consultant to the Chicago Fed's research department. The duo warns that history shows how this strategy can backfire, including the Nixon-era pressure on the Fed in the 1970s that set the stage for the Great Stagflation crisis. "In a worst-case scenario, if the Fed visibly bows to political pressure and permits inflation to rise unchecked, tens of millions of retired Americans will see their savings diminished," Griffin and Kashyap wrote. "Senior voters — tired of bearing the brunt of inflation — could cost the administration dearly in the midterms."

White House spokesperson Kush Desai told CNN in a statement: "The Federal Reserve's stated objective is to set monetary policy based on what the data show – and the data clearly show that the Trump administration's policies have swiftly tamed Joe Biden's inflation crisis. The President and the financial markets have their view clear that the Fed should respond to this objective fact by cutting rates, delivering needed interest rate relief to American families while supporting economic and employment growth." Trump has argued that if inflation turns out to be a problem, the Fed could always return to raising interest rates. While the White House says that Trump has "tamed" inflation, official statistics suggest otherwise. In fact, forecasters expect Thursday's consumer price index will show prices increased by 2.9% year over year in August. That would be up from 2.7% in July and 2.5% at the same point last year.

Rare pushback from Corporate America

Griffin’s warning represents a rare reprimand from a CEO at a time when many business leaders have tried to steer clear of publicly criticizing the president and others have gone out of their way to curry favor. Big bank CEOs publicly defended Fed independence this summer, while avoiding criticizing Trump directly. Griffin, who has said he voted for Trump in last November’s election, has repeatedly slammed the administration’s trade war. Trump has relentlessly condemned Jerome Powell, his handpicked Fed chair who was later reappointed by former President Joe Biden. Some Fed watchers worry Trump could try to give the US central bank a MAGA makeover in an effort to exert greater influence over interest rates.

Last week, Treasury Secretary Scott Bessent argued the Fed must be relieved of its duties regulating America’s banks because the US central bank has veered from its core mission. Griffin and Kashyap, in the Journal op-ed, expressed concern that Trump’s war on the Fed will backfire in at least two ways. First, artificially low rates from the Fed could overheat the economy — worsening inflation at a time when polls show voters remain frustrated over the cost of living. Secondly, investors could lose faith the Fed is committed to keeping prices stable, leading to even higher long-term borrowing costs for both the federal government and homebuyers. “While the US benefits from a large stock of credibility accumulated over decades, it isn’t limitless,” Griffin and Kashyap wrote. “If eroded, markets will demand far higher interest rates for longer-term debt.” The two also argued that it’s in the president’s “best interest” for the Fed to be viewed as independent and to actually act independently. This frees Fed officials to make unpopular but necessary choices — like spiking interest rates to fight inflation. That’s what the Powell-led Fed did (albeit belatedly) in 2022 when prices skyrocketed. “Credibility in economic policymaking is built slowly, through practice and respect for processes,” Griffin and Kashyap wrote, “and can be lost quickly if those processes are disregarded.”