

U.S. Core Inflation Expected to Rise in July

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Economists surveyed by Bloomberg expect U.S. core consumer prices, excluding food and energy, to post their sharpest monthly increase in recent months, rising 0.3% in July. The anticipated uptick is partly attributed to tariff-related pressures that have raised costs for certain goods.

Core inflation is a closely watched measure by the Federal Reserve, as it strips out volatile components like food and energy to provide a clearer picture of underlying price trends. A 0.3% monthly gain would represent a noticeable acceleration compared to the more

moderate increases seen earlier this year, potentially influencing the Fed's next policy decisions.

The projected rise comes amid mixed signals in the broader U.S. economy. While headline inflation has eased significantly from the highs recorded in 2022, specific sectors continue to see persistent price increases. Economists point to the impact of recent trade tariffs on imported goods, which have raised costs for manufacturers and retailers. These higher costs often get passed on to consumers, feeding into the core inflation data.

Housing and rental prices are also expected to remain firm, continuing to exert upward pressure on core CPI. Although the pace of rent increases has slowed in some cities, nationwide averages remain elevated. In addition, service sector inflation, including healthcare, insurance, and certain travel-related costs, has been a contributing factor to the overall reading.

The Federal Reserve has been closely monitoring these trends as it weighs the timing of potential interest rate cuts. While some policymakers, such as Vice Chair for Supervision Michelle Bowman, have signaled readiness for easing this year, others remain cautious. A stronger-than-expected core CPI reading could complicate the case for rapid rate reductions, particularly if policymakers perceive it as a sign of persistent inflationary pressures.

Market analysts note that the upcoming release of the official CPI data will be critical for shaping investor expectations. If the figures meet or exceed the 0.3% forecast, Treasury yields could rise as traders adjust their outlook on monetary policy. Conversely, a softer reading might reinforce expectations for rate cuts in the second half of 2025.

Economists also stress that while tariff effects are boosting near-term inflation, these influences could fade over time if supply chains adjust and domestic production ramps up. However, the short-term impact is adding complexity to the Fed's efforts to balance price stability with economic growth.

The July CPI report will be released later this week, and it is likely to be one of the most closely watched economic indicators of the month. Investors, policymakers, and businesses alike will be looking for signs of whether inflation is stabilizing at levels consistent with the Fed's 2% target or if renewed price pressures are emerging.

For now, the consensus among forecasters is that July's data will underscore the challenges the central bank faces as it seeks to navigate an economy marked by slowing growth but still-elevated core inflation.