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Weekly Commentary

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A potentially shocking trend for inflation

President Trump's extensive Middle East trip might be the reason he didn't respond publicly to Federal Reserve Chair Powell's comments last week. In a speech Thursday, Powell essentially said that the president's trade policies will likely force the Fed to hold interest rates higher. "We may be entering a period of more frequent, and potentially more persistent, supply shocks—a difficult challenge for the economy and for central banks."

Powell's use of "supply shocks" is likely code for the disruption that tariffs and trade wars cause, typically increasing inflation. Policymakers have made it clear they won't be comfortable lowering the fed funds target range until inflation falls close to 2%.

The good news is that the main measure of retail inflation, the Consumer Price Index, has been easing as of late. After decreasing sharply from the 6.6% year-over-year spike in September 2022, it hit a plateau around 3.3% in much of 2024. But this spring it has resumed its decline, hitting a four-year low of 2.8% in March and April 2025. The Producer Price Index has also softened. If this progress is upended as tariffs costs leak into the economy, the Fed might indeed have to hold rates steady. We'd expect a response from Trump on that, no matter where he is.

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