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## Divergent inflation

Tariffs have traditionally been inflationary for the country that implements them, but that is not a certainty. So far, the expected impact of the Trump administration's levies has not overly shown up in the data. But last week indicated that might be because US businesses are eating the cost increases rather than passing them on to customers. In July, the Consumer Price Index (CPI) was steady, but the Producer Price Index (PPI) was significantly higher than anticipated. Headline CPI grew 0.2% month-over-month (m/m) and 2.7% year-over-year (y/y), with the former in line with forecasts and the latter a touch light. Core CPI increased 0.3% m/m and 3.1% y/y, with similar relation to projections.

But PPI grew 0.9% m/m in July, far greater than the expected 0.2%. That pushed the y/y figure to 3.3%, higher than the 2.5% expected. Paired with the weak July jobs report, this new information argues for the Federal Reserve to cut rates when it meets in September. But policymakers will have another month of data from all of these metrics, as well as the July Personal Consumption Expenditures Index, before they decide. This likely also means that Fed Chair Jerome Powell will dither in his speech at the Kansas City Fed's central bank symposium in Wyoming this week.

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