The Daily Dish

Reflecting on the Inflation Problem

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As readers are doubtless aware, the Bureau of Labor Statistics released the July report on the consumer price index (CPI) on Wednesday and the producer price index (PPI) on Thursday. Both were greeted as wonderful news. The PPI was unchanged in July, and year-over-year PPI inflation came in at 4.7 percent, down from 5.5 percent in June. The more-familiar CPI rose only 0.1 percent in July and year-over-year inflation fell from 3.5 to 3.4 percent. Core CPI inflation also declined – from 2.6 percent in June to 2.5 percent in July.

Why is this wonderful news? I guess it looks good compared to the run-up from 2.4 percent in February 2026 to 4.2 percent in May, but it is a pretty minor victory. Prices are still rising. The slower accumulation of bad news is not the same thing as good news – it's how the frog got boiled.

To see the real Federal Reserve challenge, consider the year-over-year inflation as measured by the core personal consumption expenditures (PCE) price index – the Fed's preferred measure of the trend direction of inflation. In the most recent reading (June), this stood at 3.3 percent. In December 2025, 3.0 percent. In December 2024, 3.0 percent. In December 2023, 3.1 percent. Finally, in December 2022, 4.9 percent.

Having totally goofed in 2021 and generating massive inflation by early 2022, the Fed was quite successful in disinflating by the end of 2023…and has made zero, zip, zilch progress since.

The Fed does not need to raise rates to lean against the global oil price spike in recent weeks. It needs to decide whether rates are suitably restrictive to bring inflation down by another percentage point in the near future. If so, no moves are necessary. If not, then last summer's cuts were a mistake and the stance needs adjusting. In either event, the July report is scarcely great comfort.