**Firm Inflation, Soft Jobs Data Pull Fed in Opposing Directions**

Year-over-year inflation reading for August was the highest since the start of 2025

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Inflation firmed last month, with price increases picking up for goods such as cars and clothes and essentials like food and housing.

Consumer prices were up 2.9% in August from a year earlier, the Labor Department said Thursday, returning to the highest level [since the start of the year](https://www.wsj.com/economy/cpi-inflation-january-2025-interest-rate-34aa95db?mod=article_inline). That was up from 2.7% in July and a recent low of 2.3% in April, but in line with expectations from forecasters, who have expected businesses to steadily pass along higher costs from tariffs on imported goods and materials.

At the same time, signs of weakness in the labor market are accumulating, illustrating the tightrope that the Federal Reserve now walks as officials consider cutting interest rates next week.

Separate data Thursday showed that the number of Americans who filed for initial unemployment benefits jumped last week on a seasonally adjusted basis, hitting the highest level since October 2021. The data can be noisy from one week to the next, particularly during a holiday-shortened work week.

It comes against the backdrop of a sharp slowdown in payroll growth this summer alongside a slow but steady drift up in the unemployment rate.

A sustained rise in jobless claims would be alarming because it would signal more businesses are shedding workers, ending the slow-to-hire, slow-to-fire labor-market equilibrium of the past two years. And what they reveal about the economy that President Trump inherited in his second term. Photo Illustration: Laura Fong

[U.S. stocks rose](https://www.wsj.com/livecoverage/cpi-report-today-inflation-stock-market-09-11-2025?mod=article_inline), with all three major indexes hitting records. Investors now anticipate the Fed will cut rates at each of its next several meetings.

Investors widely expected a September rate cut after last week’s [lackluster August jobs report](https://www.wsj.com/economy/jobs/jobs-report-august-2025-unemployment-economy-0901d8a7?mod=article_inline), and Thursday’s inflation reading will keep that solidly on track. But it doesn’t neatly answer questions over how aggressively officials will continue to reduce rates without more evidence of weakness in the labor market.

Excluding food and energy categories—the so-called core measure economists watch in an effort to better capture inflation’s underlying trend—prices rose 3.1% over the past 12 months, also matching forecasts.

On the whole, price increases this year haven’t been as stiff as feared this spring, when President Trump announced large and broad increases in tariffs.

Thursday’s reports underscore worries that private-sector and Fed economists have harbored since the beginning of the year over how sweeping trade policy changes could weaken the economy while pushing up prices, delivering a whiff of stagflation. The inflation report showed that the economy might be avoiding a feared “surge” of bigger price hikes as wholesalers and retailers instead spread out cost increases over a longer time horizon.

“The bad news is we’re getting these gradual increases in inflation at the same time as we have a series of data points showing a pretty compelling weakening in the labor market,” said Daniel Hornung, a policy fellow at the Stanford Institute for Economic Policy Research.