

## **Inflation gets even worse**

*Editoriale*

Wednesday's announcement of 4.2 percent inflation in May, up from 3.8 percent in April, is the worst reading from the Labor Department in three years. Prices are again rising at more than double the Federal Reserve's target, but this isn't an unsolvable problem.

"I love the inflation," President Donald Trump said in the Oval Office, responding to a question about the new data. As soon as the war ends in Iran, he added, "it's going to come down like a rock."

Indeed, higher energy costs [accounted for](#) over 60 percent of the inflation increase, as the Iran war and Strait of Hormuz blockades have pushed energy prices higher. Gas prices are about [a dollar higher](#) than this time last year.

Pressures have eased somewhat. The average price for gas [has fallen](#) by almost 40 cents since last month nationwide. And core inflation, which excludes volatile staples such as food and energy, was 2.9 percent.

At around \$90 a barrel, however, oil prices could easily spike again. Trump has bent the futures markets to his will by repeatedly telegraphing that a deal with Iran is imminent, even when it was not.

China has reduced imports by purchasing less oil for its reserves. Refiners elsewhere have postponed crude buys because they expect prices to come down. That cannot continue indefinitely.

Inflation now registers as the biggest concern for 32 percent of Americans, according to [Economist-YouGov polling](#), a near-record high. Nearly 6 in 10 Americans say the economy is getting worse, while just 14 percent report that [it's getting better](#).

Even if fuel prices continue to fall, prices on most household items will remain higher than they were before the Iran war and certainly before the pandemic.

Fiscal policy isn't helping. So long as Congress runs a deficit of \$1.8 trillion a year, the economy will stay overheated, pushing prices higher. Reports from the Treasury Department this week confirmed that the federal government has already borrowed \$1.2 trillion in the first eight months of this fiscal year and is [projected to borrow](#) at least \$2 trillion by the end of September.

Monetary policy can help. The Federal Reserve will have its first meeting with Kevin Warsh as chair next week. The markets expect interest rates to hold steady but are now pricing in an increase later this year. In other words, investors are expecting Warsh to be independent, as he's promised, and resist any outside pressure from Trump.