

Vital Briefing—Tariff Insights

Fed cuts interest rate target, ignores tariff effects on inflation

By Thomas Thompson

The Fed Open Market Committee decided on September 17 that it would lower its target range for the federal funds rate by one-quarter point to a range of 4 percent to 4.25 percent. In its announcement the Federal Reserve Bank [said](#) that it was responding to moderating economic growth and a softening labor market.

In its press release announcing the shift in monetary policy, the Fed said, “Uncertainty about the economic outlook remains elevated.” The bank also observed, “Inflation has moved up and remains somewhat elevated.”

Inflation moves up. The Bureau of Labor Statistics (BLS) [reported](#) on September 11 consumer price inflation ticked upward in August from 2.7 percent to 2.9 percent, moving away from the Fed’s long-standing 2 percent inflation rate target. Lowering interest rates runs the risk of stimulating price increases.

Earlier in the month BLS had reported that the August unemployment rate had also moved in the wrong direction, albeit slightly, from July’s 4.2 percent to 4.3 percent in August. June’s number had been 4.1 percent. In its announcement, the FOMC said that it “judges downside risks to employment have risen,” adding, “The Committee is strongly committed to supporting maximum employment and returning inflation to its 2 percent objective.”

While not mentioned in the Fed press release, textbook economic theory indicates the economic stimulation from lower interest rates will offset some of the increased tariff collections dampening effect on the economy.

As the FOMC said when it cut the fed funds target, “Recent indicators suggest that growth of economic activity moderated in the first half of the year.”

Tariffs, which remove private spending power from the economy, are an obvious brake on economic growth this year. U.S. businesses have paid the U.S. government more than \$183.6 billion so far, and tariff revenues exceeded \$31 billion in August alone as the global tariffs fully kicked in.

Who is paying? Although the current tariff regime has complicated and volatile rules and their effects are not obvious at the check-out counter, the fact that \$183.6 billion in tariffs have been paid this year means they are real. But where is the money coming from?

Using up to date data from PriceStats, a private service which scrapes advertised retail prices from websites, three professors—Cavallo, Llamas, and Vazquez—have been investigating the effects of the tariffs on prices for thousands of retail items. They recently [reported](#) average retail prices for imported items increased

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more than average retail prices for comparable domestic items, although the increases were small.

The academics also found that retail prices of domestic items that are close substitutes to imported items increased almost as much as retail prices of imported items, perhaps not boding well for keeping inflation under control. Tariffs logically lead to higher prices for imported goods, but

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pulling up prices of competing domestic goods is the type of reaction that can lead to more general inflation.

According to the study, average retail prices for imported items were just 2 percent higher in August 2025 than in October 2024. Government statistics on tariff revenue indicate that tariff collection runs at the rate of 13 percent of total value of import value. The professors say that this indicates that tariffs on imported consumer goods “were far from completely reflected in retail prices as of August 2025.”

Gary Clyde Hufbauer and Ye Zhang of the Peterson Institute for International Economics reported on September 16 that prices paid to foreign sellers of five major categories of imported goods “overall have not changed much.”

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Bananas. A recent report from CNBC looking at price inflation for imported

consumer goods, pointed out coffee prices have risen throughout 2025, first due to poor harvests, then because of the tariffs.

The major coffee export nations face tariff rates above the global 10 percent, notably those imposed on Vietnam (20 percent), Indonesia (19 percent) and Brazil (50 percent). All but 1 percent of the coffee consumed in the U.S. is imported. According to the news report, coffee prices jumped 9.8% between April and August. CNBC predicts the full effects of the tariffs are yet to be seen in the price of coffee in the U.S.

The retail prices of televisions have been falling for at least the last ten years. The CNBC report says prices have reversed and suddenly climbed 3.1% since June, allegedly due to tariffs. Most televisions are imported from Mexico, China and Vietnam subject to U.S. tariffs of between 20 and 30 percent.

The price of bananas, which according to CNBC have enjoyed many years of stability, rose 4.9 percent between April and August. Almost all domestically consumed bananas are imported from Central and South America and subject to at least 10 percent tariff rates. CNBC notes tariffs on banana imports were first imposed in April.