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Inflation Ran a Bit Hotter As Consumers Spent Less

By COLBY SMITH

The Federal Reserve's preferred inflation gauge showed underlying price pressures starting to heat up slightly in May as spending cooled, trends that economists and policymakers warned could intensify this summer.

"Core" consumer prices, which strip out volatile food and energy costs and are seen as the best measure of underlying inflation, rose 0.2 percent in May. That was slightly faster than the previous month and more than economists had expected. Compared with the same time last year, core prices were up 2.7 percent, the Personal Consumption Expenditures price index showed on Friday.

Consumer prices overall rose 0.1 percent, lifting the annual rate to 2.3 percent.

That was a step up from April's 2.1 percent annual pace and brought the 12-month index further from the Fed's 2 percent target.

When adjusted for inflation, personal spending fell 0.3 percent for the month, a drop from April's 0.1 percent increase. Personal income fell 0.4 percent, the most since 2021, reflecting a reversal of a spike in Social Security payments in April.

0.2%

The rise in consumer prices, minus food and energy costs, in May.

So far, the impact of President Trump's tariffs on the economy has been relatively muted, with price pressures subdued and growth holding up. The question that economists and policymakers are now grappling with is when and by how much that could change.

"This is basically the best data set you would ask for going into an inflation shock," said Ed Al-Hussainy, a global interest-rate strategist at Columbia Threadneedle Investments. "Then we'll see how big and persistent it is six months from now."

Mr. Al-Hussainy is bracing for a "very sharp" but "very narrow" inflation surge. The labor market, he said, is a "big dampener," leaving consumers downbeat and in turn helping to keep a lid on price pressures.

The data, which was released by the Commerce Department, is being closely watched by the officials at the central bank, who have become increasingly divided over when and by how much to lower interest rates this year.

The fissures stem from differing opinions about how significantly Mr. Trump's tariffs will stoke inflation and the resilience of the labor market, which has shown signs of cooling.

Expectations about future inflation and the trajectory of the economy across American households have improved, according to the most recent data from the University of Michigan released on Friday. But Joanne Hsu, who is the survey's director, noted that "consumer views are still broadly consistent with an economic slowdown and an increase in inflation to come."

Last week, the Fed voted unanimously to hold interest rates steady for a fourth straight meeting, despite Mr. Trump's demands for an immediate and steep reduction in borrowing costs. But projections released alongside the decision as well as more recent commentary from certain policymakers underscored that the path ahead for the economy and the Fed's policy decisions will be far less straightforward.

According to the projections, most officials still expect the central bank to lower interest rates by half a percentage point this year, or two quarter-point cuts. But seven of the 19 officials estimated no more cuts over the same period, while two predicted just one quarter-point move. Another two projected 0.75 percentage points' worth of cuts, or three reductions.

Speaking to lawmakers this week, Jerome H. Powell, the Fed chair, stuck to his longstanding message that the central bank can afford to be patient before cutting interest rates. He noted that the labor market was not yet showing serious signs of weakening, and that it was still unclear how Mr. Trump's policies would affect the economy. The biggest concern is that price pressures will intensify this summer as tariffs begin to show up in a more significant way.

Not all officials are on board with that approach. Two Trump-appointed policymakers have in recent days backed a rate cut as early as July. Governor Christopher J. Waller and Michelle W. Bowman, who was just confirmed to lead regulatory issues at the central bank, downplayed in their latest speeches the impact of tariffs on consumer prices, saying these levies may not produce as big a boost to inflation as feared.

They also indicated greater concern about the labor market and the risks posed to the economy if the Fed does not offer relief soon.

Mr. Powell suggested this week that the Fed would be flexible in its plans for interest rates depending on how the data evolved. If the labor market started to more noticeably crack or tariff-related price pressures ended up less pronounced than feared, that could lead to an earlier reduction in borrowing costs.

Traders in federal funds futures markets wager that the Fed will begin lowering interest rates in September and move at least once more this year.

Kathy Jones, chief fixed income strategist at the Schwab Center for Financial Research, has also penciled in a September start, but said the Fed faced a tough judgment call given the lack of clarity surrounding Mr. Trump's policies.

"If we get a sudden surge in prices in the fall because of tariffs, that's going to be a really, really difficult thing for the Fed to 'look through,'" she said.

SHURAN HUANG FOR THE NEW YORK TIMES

Alexandr Wang, the founder of Scale AI, recently joined Meta.

VICTOR LLORENTE FOR THE NEW YORK TIMES

Yann LeCun, an early leader of modern A.I., was hired years ago.

Zuckerberg Revs Up in the Race for A.I.

FROM FIRST BUSINESS PAGE

executives in Meta's A.I. division discussed "de-investing" in its A.I. model, Llama, two people familiar with the discussions said. Llama is an "open source" model, with its underlying technology publicly shared for others to build on. They discussed embracing A.I. models from competitors like OpenAI and Anthropic, which have "closed" code bases.

A Meta spokeswoman said company officials "remain fully committed to developing Llama and plan to have multiple additional releases this year alone."

Mr. Zuckerberg has ramped up his activity to keep Meta competitive in a wildly ambitious race that has erupted within the broader A.I. contest. He is chasing a hypothetically Godlike technology called "superintelligence," which is A.I. that would be more powerful than the human brain. Only a few Silicon Valley companies — OpenAI, Anthropic and Google — are considered to have the know-how to develop this, and Mr. Zuckerberg wants to ensure that Meta is included, people close to him said.

"He is like a lot of C.E.O.s at big tech companies who are telling themselves that A.I. is going to be the biggest thing they have seen in their lifetime, and if they don't figure out how to become a big player in it, they are going to be left behind," said Matt Murphy, a partner at the venture capital firm Menlo Ventures. He added, "It is worth anything to prevent that."

Leaders at other tech behemoths are also going to extremes to capture future innovation that they believe will be worth trillions of dollars. Google, Microsoft and Amazon have supersized their A.I. investments to keep up with one another. And the war for talent has exploded, vaulting A.I. specialists into the same compensation stratosphere as N.B.A. stars.

Google's chief executive, Sundar Pichai, and his top A.I. lieutenant, Demis Hassabis, as well as the chief executives of Microsoft and OpenAI, Satya Nadella and Sam Altman, are personally involved in recruiting researchers, two people with knowledge of the approaches said. Some tech companies are offering multimillion-dollar packages to A.I. technologists over email without a single interview.

"The market is setting a rate here for a level of talent which is really incredible, and kind of unprecedented in my 20-year career as a technology executive," Meta's Mr. Bosworth said in a CNBC interview last week. He said Mr. Altman had made counteroffers to some of the people Meta had tried to hire.

OpenAI and Google declined to comment. Some details of Meta's efforts were previously reported by Bloomberg and The Information.

(The New York Times has sued OpenAI and Microsoft, accusing them of copyright infringement of news content related to A.I. systems. OpenAI and Microsoft have denied those claims.)

For years, Meta appeared to keep pace in the A.I. race. More than a decade ago, Mr. Zuckerberg hired Yann LeCun, who is considered a pioneer of modern A.I. Dr. LeCun co-founded FAIR — or Fundamental AI Research — which became Meta's artificial intelligence research arm.

After OpenAI released its ChatGPT chatbot in 2022, Meta responded the next year by creating a generative A.I. team under one of its executives, Ahmad Al-Dahle, to spread the technology throughout the company's products. Meta also open-sourced its A.I. models, sharing the underlying computer code with others to entrench its technology and spread A.I. development.

But as OpenAI and Google built A.I. chatbots that could listen, look and talk, and rolled out A.I. systems designed to "reason," Meta struggled to do the same. One reason was that the company had less experience with a technique called "reinforcement learning," which others were using to build A.I.

Late last year, the Chinese start-up DeepSeek released A.I. models that were built upon Llama but were more advanced and required fewer resources to create. Meta's open-source strategy, once seen as a competitive advantage, appeared to have let others get a leg up on it.

Mr. Zuckerberg knew he needed to act. Around that time, outside A.I. researchers began receiving emails from him, asking if they would be interested in joining Meta, two people familiar with the outreach said.

In April, Meta released two new versions of Llama, asserting that the models performed as well as or better than comparable ones from OpenAI and Google. To prove its claim, Meta cited its own testing benchmarks. On Instagram, Mr. Zuckerberg championed the releases in a video selfie.

But some independent researchers quickly deduced that Meta's benchmarks were designed to make one of its models look more advanced than it was. They became incensed.

Mr. Zuckerberg later learned that his A.I. team had wanted the models to appear to perform well, even though they were not doing as well as hoped, people with knowledge of the matter said. Mr. Zuckerberg was not briefed on the customized tests and was upset, two people said.

A spending spree has reverberated across Silicon Valley.

His solution was to throw more bodies at the problem. Meta's A.I. division swelled to more than 1,000 people this year, up from a few hundred two years earlier.

The rapid growth led to infighting and management squabbles. And with Mr. Zuckerberg's round-the-clock, hard-charging management style — his attention on a project is often compared to the "Eye of Sauron" internally, a reference to the "Lord of the Rings" villain — some engineers burned out and left. Executives hunkered down to brainstorm next steps, including potentially ratcheting back investment in Llama.

In May, Mr. Zuckerberg sidelined Mr. Al-Dahle and ramped up recruitment of top A.I. researchers to lead a superintelligence lab. Armed with his checkbook, Mr. Zuckerberg sent more emails and text messages to prospective candidates, asking them to meet at Meta's headquarters in Menlo Park, Calif. Mr. Zuckerberg often takes recruitment meetings in an enclosed glass conference room, informally known as "the aquarium."

The outreach included talking to Perplexity about an acquisition, two people familiar with the talks said. No deal has materialized. Mr. Zuckerberg also spoke with Ilya Sutskever, OpenAI's former chief scientist and a renowned A.I. researcher, about potentially joining Meta, two people familiar with the approach said. Dr. Sutskever, who runs the start-up Safe Superintelligence, declined the overture. He did not respond to a request for comment.

But Mr. Zuckerberg won over Mr. Wang of Scale, which works with data to train A.I. systems. They had met through friends and are also connected through Elliot Schrage, a former Meta executive who is an investor in Scale and adviser to Mr. Wang.

This month, Meta announced that it would take a minority stake in Scale and bring on Mr. Wang — who is not known for having deep technical expertise but has many contacts in A.I. circles — as well as several of his top executives to help run the superintelligence lab.

Meta is now in talks with Safe Superintelligence's chief executive, Daniel Gross, and his investment partner Nat Friedman to join, a person with knowledge of the talks said. They did not respond to requests for comment.

Meta has its work cut out for it. Some A.I. researchers have said Mr. Zuckerberg has not clearly laid out his A.I. mission outside of trying to optimize digital advertising. Others said Meta was not the right place to build the next A.I. superpower.

Whether or not Mr. Zuckerberg succeeds, insiders said the playing field for technological talent had permanently changed.

"In Silicon Valley, you hear a lot of talk about the 10x engineer," said Amjad Masad, the chief executive of the A.I. start-up Replit, using a term for extremely productive developers. "Think of some of these A.I. researchers as 1,000x engineers. If you can add one person who can change the trajectory of your entire company, it's worth it."

G7 Won't Penalize American Companies With Global Minimum Tax

By ALAN RAPPEPORT and COLBY SMITH

WASHINGTON — The Group of 7 nations will say in a joint statement on Friday that the group has agreed to exclude American companies from penalties related to enforcement of a global minimum tax and move forward with "side-by-side" tax systems, according to a draft reviewed by The New York Times.

The agreement follows months of negotiations between the Trump administration and its counterparts about taxes that the U.S. finds to be discriminatory. The agreement should ease concerns among multinational corporations about the potential for a global tax war. To ease the deal, the Trump administration agreed this week to drop its support of a so-called revenge tax that Congress was considering in response to international efforts to raise taxes on American businesses.

"Delivery of a side-by-side system will facilitate further progress to stabilize the international tax system, including a constructive dialogue on the taxation of the digital economy and on preserving the tax sovereignty of all countries," the G7 said in the draft statement.

The statement is expected to be released later on Friday. The Treasury Department did not immediately respond to a request for comment.

The announcement came a day after Treasury Secretary Scott Bessent announced on social media that the Trump administration was directing Republicans in Congress to drop the revenge tax plan.

The measure, which faced strong opposition from corporate lobbyists, could have increased tax rates on foreign companies by as much as 20 percentage points over time if their headquarters were in "discriminatory foreign countries" with "unfair foreign taxes." Business groups warned that the tax, which was estimated to cost companies more than $50 billion over a decade, would have scared off foreign investment and led to job cuts.

The Trump administration had publicly supported the tax earlier this month, but determined that an agreement would make it unnecessary. The understanding among the G7, which includes the world's most advanced economies, will still need to be expanded to the Group of 20 and dozens of other nations that were part of the 2021 global minimum tax agreement that was brokered by the Biden administration.

President Trump and Republicans in Congress have opposed that deal over concerns that it was ceding control of the U.S. tax base.

Other nations are still moving ahead with the minimum tax plan, which called for them to enact corporate tax rates of at least 15 percent to prevent companies from shifting their profits around to find lower tax jurisdictions. The United States has its own version of a minimum tax that does not comply with the terms of the global pact. Proponents of the agreement contended that this was necessary to prevent a "race to the bottom" of corporate taxation that was starving governments of revenue.

But the enactment of the revenge tax could have triggered a new round of tax wars that would have disrupted international commerce.

"There is a shared understanding that a side-by-side system could preserve important gains made by jurisdictions in the Inclusive Framework in tackling base erosion and profit shifting and provide greater stability and certainty in the international tax system moving forward," the G7 statement said.

Adam Michel, director of tax policy studies at the Cato Institute, said a "tax harmonization agenda is incredibly destructive, and the United States should be pushing back on it."

He said the G7 statement was just a starting point and not likely to be the final word on the issue.

"This is a much broader, sprawling thing that was let out of the bag, and it's going to take a long time to put it back in if it's even possible."

A 'side-by-side' system over one that Trump says discriminates.

The tax provision, formally known as Section 899, that the Trump administration scrapped this week had generated significant blowback from both the business community and Wall Street over worries that it would discourage foreign direct investment at the same time that it would prompt overseas investors to rethink increasing their exposure to U.S. financial assets.

"The concern with 899 was the potential that it was cutting off your nose to spite your face," said Ed Mills, a policy analyst at Raymond James.

One of the top issues was how it might affect demand for the country's government debt. The supply of that debt is set to swell to cover the surge in spending expected in the package of tax cuts Republicans are trying to pass. That would risk a rise in Treasury yields, the opposite of what the administration has been trying to achieve.

"Treasury Secretary Bessent has been singularly focused on driving down yields on long dated Treasuries, and if you added a provision that could dry up some of the demand for Treasuries, his efforts on yields generally could have just been completely destroyed," Mr. Mills said.

Mr. Mills instead pointed to tariffs as one potential cudgel that the administration could wield to keep countries in compliance.

The G7 agreement makes no mention of the so-called digital services taxes that many nations are enacting that would apply to the international profits of American technology companies. However, the Trump administration could also use tariffs as a tool for responding to those taxes.

Alan Rappeport reported from Washington, and Colby Smith from New York.