

# Inflation ended 2025 on subdued note



A grocery shopper in Seattle on Dec. 30. Consumer prices in December were 2.7% higher than a year ago, the Bureau of Labor Statistics reported on Jan. 13 — about in line with the number for November. RUTH FREMSON — THE NEW YORK TIMES

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Inflation ended the year on a subdued note, as the 2025 tariff barrage largely finished working its way through to sticker prices.

Consumer prices were 2.7% higher than a year earlier, data from the Bureau of Labor Statistics showed Tuesday, or 2.6% when stripping out volatile food and energy prices.

That was in line with the number for November, which was artificially depressed by irregularities arising from a lapse in data collection during the government shutdown. And it was only slightly slower than the pace at the beginning of 2025, before the prices of durable goods such as home furnishings and toys began rising as President Donald Trump imposed steep tariffs on most countries.

"The real surprise in these numbers is that the tariffs just don't really seem to be coming through any further into prices," said Samuel Tombs, chief U.S. economist with Pantheon Macroeconomics. "Manufacturers and retailers have been trying to absorb

those costs where possible."

The White House has delayed some tariffs and rolled back others, conscious of the impact on the public's mood and adverse stock market reactions. Tariff collections, which brought in \$287 billion last year, appear to have plateaued last quarter as manufacturers moved their supply chains out of China and into lower-tariff countries such as Mexico.

The report is the last of its kind before the Federal Reserve meets again in two weeks. With the employment report for December showing the unemployment rate sinking back to a relatively healthy 4.4%, officials are expected to hold interest rates steady after cutting them three times since September.

Trump seized on the report to demand more rate cuts. "JUST OUT: Great (LOW!) Inflation numbers for the USA," he posted on social media. "That means that Jerome 'Too Late' Powell should cut interest rates, MEANINGFULLY!!!"

The Justice Department intensified its pressure on Fed Chair Jerome Powell last week with a criminal investigation over the cost of renovations on the institution's headquarters in Washington. After months of avoiding a fight, Powell said the threat of criminal charges was intended to coerce the central bank into lowering borrowing costs.

The picture for inflation has improved in recent months with surprisingly strong growth in productivity, which surged at a 4.9% annualized pace in the third quarter of last year. When businesses get more output out of each worker, they can afford to raise wages more without necessarily raising prices, and inflation in services has been gradually cooling. Price increases in labor intensive categories such as education and financial services were muted, although the cost of eating out has risen 4.1% over the past year.

Used cars and trucks were among the goods that pulled down the headline inflation number. Prices fell 1.1% over the month and rose only 1.6% over the past year. Yearly growth in that category peaked in June 2021, before turning negative in 2023 and 2024. New vehicle prices were flat, although consumers may take little solace; the average price of a new car is now around \$50,000 after steep increases in recent years.

The holidays were also a good time to purchase appliances, such as washing machines and refrigerators, for which prices dropped 4.3% in December and were down 1.7% over the year.

Airline fares, on the other hand, unexpectedly jumped 5.2%, potentially reflecting record travel during the holidays. And inflation for groceries also came in hot, at 0.7% over the month and 2.4% from a year earlier. That was the fastest one-month gain in grocery prices since 2022, driven by higher prices for items such as meats, dairy and coffee.

Apartment rents have been sinking from pandemic-era highs after cities like Denver, Phoenix and Austin, Texas, saw a boom of new supply. But they have filtered into the consumer price index's measure much more slowly. In December, rents rose 3.1% over the year, while the cost of owning a home is up 3.4%. Those measures are still clouded by data problems caused by the government shutdown; they may jump slightly in a couple of months.

Energy prices overall have risen 2.3% over the year, but that masks big differences between sources. The price of gasoline was down 3.4%, as a glut of supply has been met with stable demand. Electricity prices, however, rose 6.7%, driven by a mix of factors including energy-hungry data centers and the rising cost of transmission. The price of piped natural gas was up 4.4% just in December, which saw cold snaps across much of the United States.

Although Federal Reserve officials may be encouraged by the relatively tame report, they are unlikely to declare victory. Inflation still stands well above the Fed's 2% target. Tax cuts from the budget and spending bill passed by Republicans in the summer are expected to boost economic activity, and interest rates have already come down substantially, easing the cost of borrowing for consumers and businesses.

"The reason we have to be cautious is that it's possible the full effect of three rate cuts in 2025 haven't fully manifested themselves yet into prices," said Ralph McLaughlin, chief economist at consumer goods intelligence firm OpenBrand. "We could see a bump in the year ahead, not necessarily because tariffs are continuing to work their way in, but because of lower rates."