

2026-1-20

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Inflation Kept Falling in '25 But Consumers Still Strained

Gasoline prices are down and tariff impact was muted, while rising grocery bills hurt

Americans began 2025 with affordability on the brain, hopeful that inflation would keep falling and that a new president would make good on promises to cut prices.

The year brought good news on that front. Overall inflation decelerated over the course of 2025, from 2.9% year-over-year in December 2024 to 2.7% last month. Core inflation, a measure that excludes the more volatile food and energy prices, fell even more steeply, from 3.2% to 2.6%.

In a few categories, like gasoline, cellphone service and tickets to sporting events, prices actually dropped.

But a slower rate of overall price increases isn't a de--crease. And consumers remain frustrated that they haven't seen more relief.

"People don't just care if inflation is rising or declining," said Stefanie Stantcheva, an economics professor at Harvard University. "They care that it's at 2.7%," still well above where the Federal Reserve would like to see it.

Grocery prices are among Americans' biggest gripes, with food-at-home prices up 2.4% from a year earlier in December, an acceleration from 2024's increase of 1.8%.

An easing of bird flu helped bring egg prices down by 21% in 2025. But prices for a host of other products outpaced inflation, some by wide margins. Coffee prices were up nearly 20% last year, driven by poor harvests from extreme weather and new U.S. tariffs on imported beans. Supply shortages helped drive beef and veal prices up by more than 16%.

"The price of eggs may have come down," said Joanne Hsu, who runs the University of Michigan's survey of consumer sentiment. "But groceries still remain really expensive."

President Trump inherited a difficult task on prices. Overall inflation hit a 40-year high of 9.1% in mid-2022. Although the rate of increase had already been slowing by the time President Joe Biden left office, consumers were still stuck on how much more expensive everything from deodorant to dinner out was compared with before the pandemic. *Note*

Despite some improvements, this year hasn't done much to change that. *Note*

Subscription streaming services and videogame rentals rose 29% over the year, with Netflix, Peacock, Apple TV, HBO Max, Hulu and Disney+ all hiking prices for at least some of their services.

In some ways, 2025 was atypical for inflation—and how it is measured. Data on prices was disrupted for several months toward the end of the year because of the government shutdown. Trump's trade war, which drove tariff rates to their highest levels in decades, made setting price levels difficult for a lot of businesses.

The duties haven't had as dramatic of an effect on prices as economists initially predicted, but their impact hasn't been zero.

"Most people expected tariffs would almost immediately within two to three months cause inflation to spike," said Barclay's economist Pooja Sriram. "Instead, what happened was a very, very gradual slow grind."

Tariffs helped drive inflation on categories in which prices increased last year: furniture and bedding, car parts and audio equipment, Sriram said.

In other import-heavy areas, tariff pressures were more subdued, partly because retailers themselves absorbed the cost of higher duties. Apparel, for example, rose only 0.6%. Toys were up 0.8%. And new cars increased 0.5%.

Inflation in rental housing has been slowing, and analysts expect that to continue into 2026.

But rents still remain high compared with historic averages. Home prices, too, are near record levels.

"The persistence of high prices is still painful," said Hsu. Complaints about prices affecting people's financial well-being, she said, "have not ebbed at all."

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