

Inflation Holds Steady, Giving Fed Breathing Room

BY HARRIET TORRY

Inflation remained relatively contained at the close of 2025 despite turbulence from tariffs, giving the Federal Reserve some breathing room as it weighs the threat of price pressures against a cooling labor market.

Consumer prices rose 2.7% in December from a year earlier, the Labor Department said Tuesday. That was unchanged from November's pace and in line with the expectations of economists surveyed by The Wall Street Journal.

Though inflation readings bounced around last year and remain stuck above the 2% rate that policymakers prefer, year-over-year CPI inflation cooled over the course of 2025, to 2.7% in December from 3% in January.

The consumer-price index report showed the impact of tariffs is still relatively muted. Last spring, a big fear was that President Trump's new tariffs would fuel massive price increases, but some companies have been eating the cost or raising prices only slowly. Tuesday's report also offers a measure of relief to Fed officials who lowered rates last month and have signaled they plan to hold them steady for now.

"In a year where there was an incredible amount of angst related to tariffs and the potential for upward pressure on that, we're finishing the year in a more benign stance than where we started," said Tom Porcelli, chief economist at Wells Fargo.

The December report "allows the Fed to start the process of shifting its focus more toward the labor part of the mandate, which is in need of some help right now," Porcelli said.

High prices remain a top concern for U.S. consumers, many of whom thought life would be more affordable by now but instead have had to stomach five years of persistent inflation. Prices for groceries, insurance and housing are much higher than they were just a few years ago, forcing Trump to pivot from scoffing at complaints about affordability to pitching ideas about how to lower everyday costs.

People paid more for rent, airline fares and visits to the doctor's office in December compared with the prior month, according to the Labor Department. On the flip side, gasoline costs and used car and truck prices declined.

What's more, a slowing labor market has left workers anxious. Outside of the two most recent recessions, 2025 saw the lowest pace of average monthly job growth since 2003.

Underscoring the pressure many households are under as demand for workers cools, average weekly earnings of U.S. workers declined 0.3% on the month in December after adjusting for inflation, the Labor Department said in a separate release Tuesday.

Trump, a Republican, took a victory lap Tuesday after the inflation numbers were released. Speaking at the Detroit Economic Club, the president asserted that under his administration, "growth is exploding, productivity is soaring,

investment is booming, incomes are rising, inflation is defeated.”

Trump criticized Fed Chair Jerome Powell, accusing him of being too slow to lower interest rates. Trump and Powell have been locked in an extraordinary public feud since Sunday, when Powell accused the Trump administration of using the threat of criminal prosecution to pressure the Fed into lowering rates.

Tuesday’s CPI report showed prices rose a seasonally adjusted 0.3% on the month in December. Food overall went up by 0.7% on the month, the largest month-over-month increase since October 2022.

Stripping out volatile food and energy costs, the core measure of prices increased 2.6% over the year, the same pace as the prior month and cooler than the 2.8% analysts predicted.

Tuesday’s report marks the first complete look at inflation trends in months. The Bureau of Labor Statistics, which is the stats arm of the Labor Department, wasn’t able to collect prices in the field during the government shutdown in the fall, and the agency had to use technical workarounds to deal with the missing data in the previous inflation report. Many economists believe that, as a result, the month-ago inflation numbers might have been artificially low. (The BLS has said it handled gaps in the price data as best as it could.)

“Distortions caused by the government shutdown have made the inflation data harder to interpret, but the recent run of figures suggests inflation has peaked,” Michael Pearce, chief U.S. economist at Oxford Economics, said in a note to clients after the CPI report’s release, since “tariff-driven price rises have mostly been passed through.”

The impact of tariffs, though milder than many economists predicted, has still affected U.S. consumers. An index measuring goods prices excluding food, energy, and used cars and trucks was up 1.4% on the year in December. While that was lower than the overall rate of inflation, it was the highest reading for that category since October 2023.

U.S. stock indexes were down.

The current U.S. economy represents something of a split screen, with a cooling labor market but still-solid economic growth. Small-business confidence in the U.S. rose in December from the previous month, driven by a jump in those expecting better business conditions going forward, according to the small-business optimism index from the National Federation of Independent Business out Tuesday.

“The U.S. economy has remained resilient. While labor markets have softened, conditions do not appear to be worsening,” JPMorgan Chase Chief Executive Jamie Dimon said Tuesday as the bank issued its fourth-quarter earnings results.

The December consumer price index isn’t likely to change the Fed’s wait-and-see posture at its next policy meeting at the end of this month because officials are likely to want to see more evidence that inflation is leveling off before cutting rates.

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