



By: Daniel Lacalle

# Tariffs didn't drive inflation higher in the US - the disinflation trend is real



**Disinflation** in the United States is no longer a forecast. It is visible in the recent hard data, especially in essential goods prices and producer prices, debunking the 2025–26 tariff tantrum narrative.

Tariffs do not cause inflation because they do not imply more units of currency in the system. Inflation is always caused by money supply growth and, more prominently, when government spending soars, driving monetary velocity to new highs.

Tariffs are not a United States issue. They are the norm in global trade. The same people that say that tariffs will drive inflation higher in the United States said that accelerating money supply and government spending in 2021 would not drive prices higher.

They even repeated that inflation was transitory. They were wrong then, and they are wrong now.

The evidence from both the official **PPI** series and high-frequency indices such as Truflation suggests that most of the tariff burden has been absorbed by producers and importers rather than passed through to consumers.

Headline **CPI** slowed to 2.4% year-on-year in January 2026, down from 2.7% in the previous two months and well below the peaks of the post-pandemic period.

On a month-on-month basis, prices still rise, but at a pace consistent with something close to the Federal Reserve's 2% objective, once base effects are considered.

## Price falls in essential categories

Underneath that headline, core goods have moved from strong inflation in 2021–22 to a mix of flat prices and outright declines in several essential categories since 2025. This is where producer-price data are particularly revealing.

The latest PPI release shows that in December 2025 prices for **final demand foods** fell 0.3% on the month, with spectacular drops in basic staples like fresh and dry vegetables ( $\downarrow 20.4\%$  m/m), meats ( $\downarrow 0.8\%$ ), processed poultry ( $\downarrow 1.8\%$ ) and dairy products ( $\downarrow 0.5\%$ ).

Energy was also cheaper at the producer level, with the energy component down 1.4% and sharp declines in gasoline ( $-1.0\%$ ), heating oil ( $\downarrow 1.3\%$ ) and diesel ( $-14.6\%$ ).

When the Bureau of Labor Statistics decomposes the PPI, it confirms that processed foods fell 1.3% and processed energy goods 2.4% in January, dragging down the overall goods component.

**The combination of lower input costs despite good demand is typical of a disinflationary phase**

These are exactly the categories that define the cost base of “essential” consumption – food, fuel, and basic transport – and highlight outright price falls.

Over the full year 2025, producer prices for final demand rose 3.0%, down from 3.5% in 2024 and much lower than the surges seen in 2021–22. Crucially, the deceleration has been led by goods.

Processed goods for intermediate demand rose only 3.4% in 2025 after soaring between 2021 and 2024, and the momentum coming into 2026 is clearly downwards in food and energy inputs.

The combination of lower input costs despite good demand is typical of a disinflationary phase, even if some service categories remain sticky.

The index for final demand rose 0.5% month-on-month in January 2026. On an unadjusted 12-month basis the PPI for final demand is up 3.0%, lower than the 3.3–3.5% pace recorded in 2024.

## What happened to the 2025 tariff wave?

Against that backdrop, the question is what happened to the 2025 tariff wave. When we look at realised inflation and sectoral PPIs, the apparent pass-through of the latest tariff package is almost non-existent.

High frequency measures like the Truflation index, which tracks prices using realtime data across a broad consumption basket, show that **U.S. inflationary pressures** started to decline through 2025, despite the introduction of new tariffs.

**Goods heavily exposed to global competition, such as many food items and fuels, have seen producer prices falling or flat**

In its updates, Truflation flagged that while tariffs were visible in an exceedingly small number of imported categories, the overall index did not show inflationary pressures because foreign producers and importers were compressing margins to preserve volumes.

"The overall tariff-related inflation in our price data was relatively modest compared to the announced tariff rates, indicating limited pass-through to consumers, with the bulk of the burden absorbed by foreign producers and importers," they wrote in a recent report.

That pattern is consistent with the official PPI data. Goods heavily exposed to global competition, such as many food items and fuels, have seen producer prices falling or flat, which is hard to reconcile with full tariff pass-through.

### Tariffs do not "cause" inflation

This absorption of the tariff burden by firms is also coherent with the macro environment. Exporters to the US face overcapacity and working capital challenges; growth has cooled,

manufacturing has contracted in several quarters, and financing conditions remain tight, all of which limit the pricing power of firms facing higher costs.

Exporters need the US consumer demand and are willing to reduce margins to maintain prices and keep volumes sold at a high level.



*Tariffs may be criticised for other reasons, including geopolitical and trading agreement challenges, but they do not "cause" inflation - Daniel Lacalle*

Most importers and downstream foreign producers have chosen to accept lower margins, renegotiate contracts along the supply chain, or switch suppliers, especially in commoditised segments like basic food and fuels.

The result is a paradox from a political and macroeconomic perspective. On the one hand, tariffs have raised substantial **revenue**, with over \$200 billion collected in 2025, which may have affected trade flows but not overall price dynamics.

On the other hand, the combination of cooler global demand, excess capacity, working capital problems, tougher competition, and aggressive margin compression has meant that the consumer price impact has been almost fully neutralised, allowing headline inflation to keep trending down towards 2-3% rather than re-accelerating.

Remember that those studies that followed the narrative of tariffs causing inflation were not expecting declining CPI rates but alarming levels close to 4% and 5%, even "doubling" of prices.

The U.S. is in a clear disinflationary phase, led by essential goods, where producer prices have turned negative monthly, while tariffs have functioned more as a tax on foreign producers and importers than as an explicit new inflation shock for households. All this matters for policy.

Tariffs may be criticised for other reasons, including geopolitical and trading agreement challenges, but they do not “cause” inflation, and now the evidence is undeniable.