Flash Economics

N° 44
April 23, 2025

Inflation will inevitably be high in the United States

In March 2025, inflation in the United States was 2.4% and underlying inflation was 2.8%. But everything points to a fairly sharp rise in US inflation rates:

- The tariffs announced by Donald Trump on the 2nd of April, then amended on the 9th of April (10% for all countries except China, whose products are taxed at 145%; and 25% for automobiles, steel and aluminium) will, because of the low substitutability between imported products and domestically manufactured products, drive up prices (the 'pass through' is very high);
- The depreciation of the dollar (from 1.02 dollars per euro at the beginning of January 2025 to 1.15 at the end of April 2025) will push up inflation, especially as Donald Trump's entourage is in favour of a depreciation of the dollar;
- The anti-immigration policy will lead to renewed tension on the labour market, resulting in higher wage rises.

Inflation expectations (Conference Board, University of Michigan) are already pointing to a sharp rise in inflation over the next 12 months.

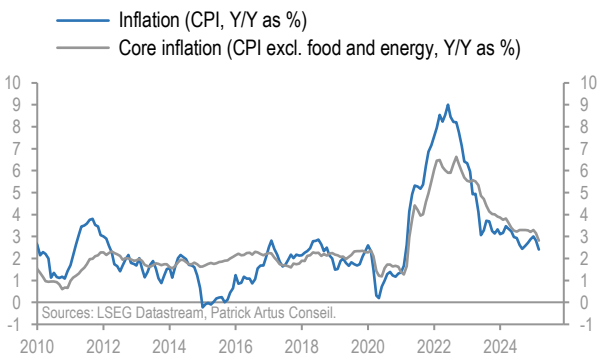
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Why is a net rise in US inflation the most likely scenario?

In March 2025, total inflation in the US was 2.4% and inflation excluding energy and food was 2.8% (Chart 1).

Chart 1
United States: Headline inflation and core inflation (as %)



However, the most likely scenario is that inflation will rise again in the United States over the next two years as a result of:

- Higher tariffs;
- The depreciation of the dollar;
- The slowdown in immigration.

Increase in tariffs

Donald Trump has decided to increase tariffs on imports into the United States. The average tariffs applied to other countries in the first version of the tariffs - that of the 2nd of April - rose by 22.5 points, then in the second version - that of the 9th of April - by just 12.5 points. The key question, then, is that of **pass-through**[1], i.e. the proportion of the increase in tariffs that will be passed on to import prices. Recent empirical work shows that pass-through is very high, at around 0.94. A 12.5-point increase in tariffs would raise the price of imports by 12%, and because imports of goods and services account for 14% of GDP (2024 figures), **the maximum mechanical effect on US domestic prices of the tariff increase is a 1.7% rise in domestic prices**.

However, the real effect is probably lower, because distributors tend to reduce their margins on imported products when tariffs are raised.

Depreciation of the dollar

Donald Trump's advisers are in favour of letting the dollar depreciate in order to improve the competitiveness of the United States and allow it to re-industrialise. The dollar has already depreciated from 1.02 dollars per euro at the beginning of January 2025 to 1.15 at the end of April 2025. But Stephen Miran, the White House's chief economic adviser, wants the dollar to depreciate much more sharply, **as he wants it to lose its status as a reserve currency.**

However, it should be borne in mind that the **pass-through associated with a depreciation of the exchange rate is much lower** (according to the work of A. Cavallo, G. Gopinath, B. Neiman and J. Tang, cited above) than the pass-through (effect on import prices) associated with an increase in tariffs (it is 0.22 in the case of an exchange rate depreciation compared with 0.94 in the case of an increase in tariffs).

A very sharp depreciation of the dollar would be needed to have a significant effect on domestic prices (a 20% depreciation of the dollar increases import prices by 4.4% and domestic prices by 0.6%).

[1] For instance: Amiti, M., Redding, S. J., & Weinstein, D. E. (2019). The impact of the 2018 tariffs on prices and welfare. *Journal of Economic Perspectives*, *33*(4), 187-210.
Or: Cavallo, A., Gopinath, G., Neiman, B., & Tang, J. (2021). Tariff pass-through at the border and at the store: Evidence from US trade policy. *American Economic Review: Insights*, *3*(1), 19-34.

Halting immigration

The third reason why inflation is **set to rise in the United States is the fight against illegal immigration**. There are 11 million undocumented immigrants in the United States, of whom 8.3 million are employed, representing 4.8% of jobs, mainly in agriculture, hotels and restaurants, transport and logistics.

The halt in immigration flows, or the withdrawal from the labour market of a certain number of undocumented immigrants, will lead to an increase in labour market tension, which had fallen sharply since 2022 precisely because of the influx of immigrants (**Charts 2A/B**).

Chart 2A
United States: Proportion of companies experiencing recruitment difficulties (as %)



Chart 2B
United States: Ratio between number of job vacancies and number of job seekers



This increased tension on the labour market will lead to an accelerated increase in wages, whereas wage growth had clearly decelerated since 2022 (**Chart 3**) with the reduction in tension on the labour market.

Chart 3
United States: Nominal wage per capita (Y/Y as %)



Summary: the three causes of the future rise in US inflation

Inflation in the United States will rise sharply as a result of:

- The effect of higher tariffs;
- The depreciation of the dollar;
- The fall in immigration and its effects on wage increases.

The US is heading for **stagflation** (weaker growth, higher inflation), which is known to be the most uncomfortable situation for central banks.

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