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# US INFLATION ENDS 2025 AT 2.7%

## NEWS SUMMARY

December 2025 CPI showed a headline inflation at an increase of 0.3% month-on-month and 2.7% year-on-year, unchanged from November and exactly in line with expectations. Core CPI, which excludes food and energy rose 0.2% on the month and about 2.6% year-on-year, slightly softer than forecast, signaling gradual disinflation beneath the surface. Shelter and other services continued to drive most of the increase, while used cars and some goods categories saw outright price decline that helped cap overall inflation.

## WHAT IT MEANS FOR THE US ECONOMY

The data confirms that US inflation has moved out of the 'high' zone, but remains above the Fed's target of 2%, closing 2025 with only modest progress in lowering price pressures. Price growth is concentrated in sticky components like housing and certain services, which tend to respond slowly to policy changes, while goods inflation has largely cooled or even turned negative. For households, this mix means headline inflation feels lower than 2022-2023, but living costs, especially rent and some everyday services are rising faster than wages for many lower-income families.

## MARKET AND FED REACTION

The markets interpreted the softer than expected CPI as mildly supportive for risk assets: equities firmed, Treasury yields edged down, and traders kept pricing at a first rate cut around mid-2026. For the Fed, the report reinforces the case for a pause, inflation is clearly off peak, but not yet low or broad-based enough to justify aggressive easing, especially after the recent dip in the unemployment rate. Central bankers can point to this CPI release as evidence that policy is working, but persistence of shelter and services inflation means they are likely to continue signaling a cautious approach/

## BROADER IMPLICATIONS

Together with December's soft jobs report, the CPI data supports the narrative of a cooling but growing US economy. Demand is slowing enough to tame inflation without triggering a sharp rise in unemployment. If disinflation in goods continues and shelter inflation eventually falls as new supply is introduced, headline CPI could drift closer to the target of 2% in 2026, giving the Fed room to cut rates and ease real-income pressure on households. However, any renewed shocks from tariffs, energy prices, or supply disruptions would risk stalling the progress, and force the Fed to keep policy tighter for longer.