2025 inflation: We are not out of the woods

by Stephan Liozu, Ph.D.

While the overall outlook points to a decline in inflation by 2025, there are many unknowns and potential risks underscoring the importance of vigilant pricing strategies and monitoring to react to unforeseen inflationary pressures, as the author explains. Stephan M. Liozu, Ph.D. is the Chief Value Officer of Zilliant (Stephan.liozu@zilliant.com). Stephan has 30 years of experience in the industrial sector with companies like Owens Corning, Saint-Gobain, Freudenberg, Ardex, and Thales. Stephan specializes in pricing transformations, pricing ROI, and value-based pricing. He has authored and edited 15 books on value and pricing management. Stephan sits on the Board of Advisors of Professional Pricing Society.

Inflation forecasts for 2025 suggest a moderation toward pre-pandemic levels, with several institutions projecting rates around 2% to 2.5%. For instance, the International Monetary Fund (IMF) anticipates global inflation decreasing from 6.7% in 2023 to 5.8% in 2024, and further to 4.3% in 2025, with wealthier countries experiencing even faster reductions. Similarly, the Federal Reserve's projections indicate a return to their target inflation rate of approximately 2% by 2025.

In general, several traditional factors could pose risks of higher inflation:

- **Fiscal Policies:** Post-election policy decisions, such as increased government spending or tax cuts, could stimulate demand and elevate inflation.

- **Energy Prices:** Fluctuations in energy costs can directly impact inflation. Recent increases in energy prices have contributed to reversals in declining headline inflation, potentially exerting upward pressure in the coming months.

- **Supply Chain Disruptions:** Ongoing global supply chain issues, including trade tensions and logistical challenges, could lead to shortages and higher prices for goods, thereby sustaining inflationary pressures.

- **Labor Market Dynamics:** Tight labor markets may result in wage growth, which, if not matched by productivity gains, could lead to increased production costs and, consequently, higher consumer prices.

While the overall outlook points to a decline in inflation by 2025, there are many unknowns and potential risks underscoring the importance of vigilant pricing strategies and monitoring to react to unforeseen inflationary pressures. With a new administration coming to office in January 2025, the implementation of their campaign promises and policies might put even more pressure on inflationary trends. Pricing teams need to stay aware of these and communicate to their management teams about the possible fall back.

Increased Import Tariffs

New tariffs in 2025 are expected to bring significant implications for inflation and consumer prices. Tariffs typically increase the cost of imported goods by imposing a tax on imports, and the extent of their impact depends on several factors, including the scope of products targeted, the supply chain flexibility, and the ability of businesses to absorb these costs or pass them on to consumers. So yes, tariffs raise consumer prices eventually (https://www.econlib.org/do-tariffs-raise-prices).

1. Immediate Price Pressures and Inflationary Impact

New tariffs directly raise the cost of goods from foreign sources, leading to an immediate upward pressure on consumer prices, especially in industries heavily reliant on imports. As companies incur higher costs for materials, they may transfer these to consumers in the form of higher prices. This cost-push inflation can contribute to an increase in the overall inflation rate, particularly if the tariffs widely affect consumed goods or essential inputs such as electronics, apparel, and raw materials.

2. Long-Term Supply Chain Adjustments and Production Costs
In the longer term, tariffs incentivize companies to seek alternative sources or adjust their supply chains to minimize reliance on the affected imports. While this diversification can mitigate the price impact over time, it also introduces additional costs, as companies may need to invest in new supplier relationships or relocate manufacturing. Such adjustments, while promoting supply chain resilience, can be costly, and these expenses may be passed along to consumers. This effect prolongs the inflationary pressures associated with tariffs.

3. Impact on Domestic Production and Price Dynamics
Tariffs are often introduced to protect domestic industries by making imported goods less competitive. However, in sectors where domestic production cannot immediately meet demand, the reduced competition can allow domestic producers to increase prices, contributing further to inflation. In industries where domestic production is not feasible or takes time to ramp up, consumers are left with fewer choices and higher prices in the short term.

4. Consumer Behavior and Economic Sentiment
The rise in consumer prices can dampen consumer spending, particularly for discretionary goods, as households adjust to the higher cost of living. This adjustment, while potentially cooling inflationary pressures by reducing demand, can also slow economic growth, as consumer spending is a significant component of GDP. Additionally, increased tariffs can influence consumer sentiment, particularly if they become widespread and lead to the perception that goods are becoming less affordable.

New tariffs in 2025 are likely to elevate inflation and consumer prices in the short term. The extent and duration of the effect will depend on the specific industries targeted by the tariffs, the global supply chain's flexibility, and the responses of both businesses and policymakers. If tariffs persist, consumers could face lasting impacts in the form of higher prices, altered purchasing behaviors, and a shift in economic sentiment, which collectively could reshape economic dynamics in the coming years.

Tightening Labor Market

The anticipated labor shortages in 2025, stemming from stricter immigration policies, are poised to exert substantial upward pressure on inflation and consumer prices, affecting various industries and economic dynamics. Immigration has historically played a crucial role in supplying labor across sectors, particularly in low-wage and labor-intensive industries. Limiting this workforce creates both immediate and long-term consequences for businesses and consumers alike.

1. Wage Pressures and Cost-Push Inflation
With a reduced labor pool, competition for workers intensifies, especially in sectors heavily reliant on immigrant labor, such as agriculture, construction, hospitality, and healthcare. Employers may have to offer higher wages to attract and retain employees, which raises production costs. This wage inflation can drive up prices across the supply chain, leading to cost-push inflation, where the increased costs of labor are passed on to consumers in the form of higher prices for goods and services.

2. Reduced Productivity and Supply Constraints
A labor shortage also affects productivity and overall output. With fewer workers available, companies may struggle to meet demand, leading to supply constraints. For instance, a shortage of agricultural workers could result in reduced harvests, limiting the supply of certain crops and pushing up prices for fresh produce. Similar constraints can occur across industries, amplifying inflationary pressures as reduced supply collides with steady or rising demand.

3. Service Quality and Production Delays
In response to labor scarcity, some companies may streamline operations or reduce service quality, impacting the customer experience. For example, retail and hospitality businesses may operate with fewer staff, leading to longer wait times or diminished service levels. In manufacturing, production delays could become common if

companies cannot hire enough workers, resulting in longer lead times for goods. These operational adjustments not only affect consumer satisfaction but may also contribute to rising prices as demand exceeds constrained supply.

4. Impact on Housing and Construction Prices
The construction industry, one of the sectors most reliant on immigrant labor, could face particularly acute challenges. Reduced availability of workers could slow down building projects, limiting housing supply and driving up real estate prices, which can then contribute to inflation. Higher construction costs also mean higher prices for new housing, impacting affordability and putting additional pressure on inflation, particularly in urban areas where housing demand is already high.

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5. Increased Automation and Technology Costs
In the medium to long term, some companies may look to automation and technology as alternatives to manual labor to mitigate the impact of labor shortages. However, implementing automated solutions requires upfront capital investment, and the transition may be slow, especially for smaller businesses. The costs of adopting automation could also be passed on to consumers, further driving inflation in certain sectors. Additionally, industries where automation is less feasible—such as hospitality and certain service-based sectors—may continue to face labor-driven price increases.

In summary, a labor shortage driven by immigration restrictions in 2025 is likely to elevate inflation and consumer prices, as businesses struggle with rising wage costs, reduced productivity, and supply constraints. The impacts will be most felt in sectors highly dependent on manual labor, and the downstream effects on prices could have far-reaching consequences for consumer behavior and economic stability.

Currency Wars

Currency wars in 2025, defined as competitive devaluations by countries to boost their exports, can lead to a host of inflationary pressures and fluctuations in consumer prices. With the rise of protectionism, tariffs, and geopolitical conflicts, countries might be forced to engage in currency devaluation to make their exports more competitive globally. The resulting shifts in exchange rates affect the cost of imported goods, raw materials, and overall economic stability. Below are some of the ways currency wars in 2025 may impact inflation and consumer prices.

1. Imported Inflation and Rising Consumer Prices
When countries devalue their currencies, imported goods become more expensive, as it requires more local currency to purchase the same amount of foreign goods. For countries that rely heavily on imports—whether for consumer goods, energy, or raw materials—this can lead to "imported inflation." As costs for imported items rise, businesses often pass these higher expenses onto consumers, causing overall consumer prices to increase. In economies with high import dependency, the impact can be significant, leading to substantial price hikes in everyday products.

2. Cost of Raw Materials and Manufacturing
In a currency war, fluctuating exchange rates can make the cost of raw materials unstable, particularly for globally traded commodities like oil, metals, and agricultural products. This instability in input costs can disrupt manufacturing sectors, especially those reliant on imported materials. When manufacturers face higher and more volatile raw material costs, production becomes more expensive, contributing to inflationary pressures across the supply chain. These increased production costs can translate into higher prices for finished goods, affecting consumers directly.

3. Volatility in Financial Markets and Investment Costs
Currency wars tend to create uncertainty in financial markets as investors react to rapid changes in exchange rates and potential policy interventions by central banks. This volatility can raise the cost of capital, as investors may demand higher returns to compensate for increased risk. For companies looking to finance projects or expand operations, this means higher borrowing costs, which can contribute to price increases for consumers if companies need to offset these costs. Furthermore, volatility in markets can impact economic confidence, leading to more cautious consumer spending and potentially amplifying inflationary concerns.

4. Competitive Devaluations and Retaliatory Measures
When multiple countries engage in devaluing their currencies simultaneously, it can lead to a cycle of competitive devaluations, where each country tries to outdo the other to maintain export competitiveness. This "race to the bottom" can trigger a range of economic side effects. For example, if the U.S. dollar weakens, other countries might weaken their currencies in response to prevent losing competitiveness, leading to an unpredictable exchange rate environment. This instability can hurt global trade, disrupt supply chains, and further complicate pricing, adding to inflationary pressures.

5. Impact on Domestic Consumption and Spending Power

Currency devaluation can reduce the purchasing power of consumers, especially for imported goods. For countries where households frequently buy imported goods or services, a weaker currency translates directly into less buying power, as wages do not immediately adjust to offset the higher costs of imported goods. As household budgets are squeezed, spending on discretionary items may decline, though essential goods will continue to see demand, keeping prices high for staples while dampening demand for luxury or non-essential items. This shift in spending patterns can alter consumer price dynamics, with inflation concentrated in necessary goods.

Protection of Strategic Raw Materials & Precious Metals

The increase in protectionism and limitations on the trade of precious materials and critical supplies in 2025 would likely contribute to inflationary pressures and rising consumer prices across multiple industries. As countries implement protective measures to safeguard their access to essential resources, these policies disrupt global supply chains and increase costs for manufacturers and consumers alike. Here's a closer look at how this trend could impact inflation and consumer prices.

1. Increased Raw Material Costs and Supply Chain Constraints

Protectionist policies that restrict the export of precious materials—such as rare earth metals, lithium, and semiconductors—drive up raw material prices by reducing global supply. As these resources become scarcer or more costly to obtain, industries reliant on them, like electronics, automotive, and renewable energy, face higher input costs. These additional expenses often get passed along to consumers, leading to price increases for products ranging from smartphones to electric vehicles.

2. Domestic Production Costs and Inefficiencies

When countries prioritize self-sufficiency through domestic production, they may incur higher costs compared to sourcing from the global market. Developing local sources for materials or manufacturing capacity for critical supplies requires capital investment, advanced technology, and specialized skills. As companies navigate these challenges, production inefficiencies can lead to higher prices for finished goods, as local production may lack the scale and expertise of established global supply chains.

3. Reduced Product Variety and Price Hikes for Specialized Goods

Protectionism and restrictions on critical imports can limit the availability of specialized goods, reducing consumer choice and putting upward pressure on prices. For instance, if the supply of certain electronic components is restricted, manufacturers may reduce product lines or limit output, creating scarcity. In such scenarios, prices for available products increase, as consumers compete for limited options in the market.

4. Inflationary Pressures from Strategic Stockpiling

Countries often respond to resource scarcity by stockpiling precious materials and critical supplies to ensure long-term availability. While this may offer strategic security, it reduces the amount of these resources available on the open market, creating supply constraints that drive prices higher. As competition for these resources intensifies, manufacturers face increased costs that, in turn, lead to higher consumer prices. Additionally, the practice of stockpiling can lead to price volatility, as sudden shifts in supply and demand affect global markets.

5. Concentration of Resources and Power Among Key Suppliers

Protectionist policies often concentrate precious materials and critical supplies within a few key countries or companies that have the resources to produce them. This concentration of power can lead to monopolistic pricing practices, where suppliers increase prices due to lack of competition. For instance, if only a few countries control the global supply of cobalt or rare earth metals, they may set higher prices, impacting downstream industries and ultimately leading to higher consumer prices across affected sectors.

Protectionism and limitations on precious materials and critical supplies in 2025 are likely to contribute to inflationary pressures and rising consumer prices across sectors. With increased production costs, reduced availability of certain goods, and greater supply chain disruptions, consumers may face higher prices, particularly for technology, automotive, and renewable energy products. While these protectionist measures can strengthen national security and supply chain resilience, they

also add complexities to the global economic landscape, raising inflationary risks and creating long-term challenges for price stability.

Concluding Thoughts

No one knows what the future holds. New U.S. economic policies set for 2025 could trigger a domino effect. While we know what was discussed on the campaign trail, what will actually happen remains uncertain. The bottom line? We're not out of the woods with inflation. Pricing teams cannot afford to be complacent. They need to keep leadership informed of the potential for another inflationary period, which will require agility and full engagement.

In 2024, consumer prices stabilized, and inflation returned to standard levels, but this may be short-lived. Be prepared. Have proactive discussions about the risk of inflation's return. Ready your team for a new pricing management approach that might bring disruption. Begin communicating with your customers now, highlighting potential risks and the impact inflation could have on their business. ❖