Economy:

Effectively Managing Inflation And Affordability

January 2026

Top Line

1. **Inflation and affordability are top concerns for voters.** After a long period of low inflation, the rate spiked in 2021 and 2022 during the COVID pandemic. Although inflation declined significantly in the last years of the Biden Administration, the higher prices are still a major concern for voters, and inflation remains around 3%, above the Federal Reserve Banks' 2% annual target.

2. **Donald Trump promised to "eliminate" inflation. However, inflation has not decreased so far in his second administration, and his economic policies are increasing the risk of higher inflation in the future.**

3. **We need smart policies to effectively manage inflation,** including ending Trump's harmful tariffs, addressing the housing crisis, protecting the independence of the Federal Reserve, reducing the deficit and investing in a stronger US workforce.

Backup

1. Inflation is a top concern for voters

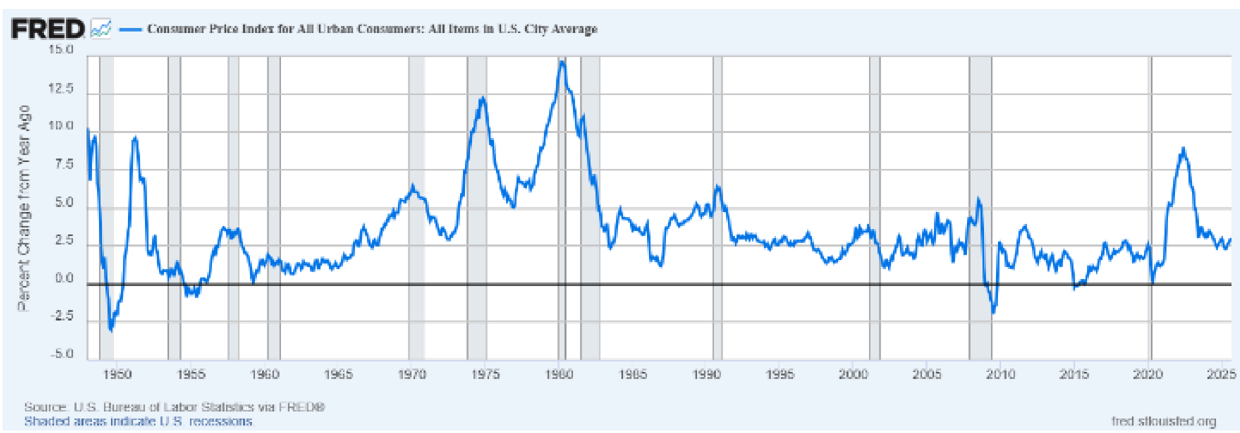
Definition:

- Inflation means rising prices.
- A more precise definition, from the Federal Reserve Bank of Cleveland, is "inflation is ongoing increases in the general price level for goods and services in an economy over time". (1)

- Consumers often express their frustration about inflation by complaining about "affordability" – as prices go up, the things households need become less affordable.

a. After a long period of low inflation from 2000 - 2020, inflation spiked at the end of the COVID pandemic

- As shown in the graph below, the US experienced severe price spikes in the distant past - including the 1970's and early 1980's, driven by rapidly rising oil prices and inadequate monetary policy. The Federal Reserve revamped its inflation policies based on that experience. (2)
- Since the mid-1980's, inflation has remained relatively stable, averaging 2.6% between 1985 and 2020. (3) For most Americans, that is their memory of inflation - relatively steady and mild.
- However, beginning in mid-2021, inflation spiked up, reaching over 8% year-over-year in 2022. (3)



Source: Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/CPIAUCSL#

b. There are several reasons for this spike in inflation: (4)

- **The Federal response to the COVID pandemic.** Both the Trump and Biden administrations implemented large subsidy payments to US households, to offset the economic losses caused by the pandemic. This helped to support the US economy and helped US families, but it also caused an increase in demand for goods and services, without an increase in supply, which put upward pressure on prices.
- **Supply chain disruptions** - The lockdowns and business disruption caused by the pandemic reduced the supply of goods. For example, in the case of automobiles,

US auto production dropped from 11.7 million vehicles in July 2020 to less than 9 million in the fall of 2021, reflecting shortages of computer chips and other inputs. The combination of strong demand and supply chain bottlenecks led to further pressure on prices.

- **Oil price shocks** - the crude oil market was disrupted by the Russian invasion of Ukraine in early 2022. The price of West Texas Intermediate crude oil rose from less than $70 per barrel in the late summer of 2021 to more than $100 per barrel for most of the period between March and July of 2022, pushing up gasoline prices and the costs of many industrial inputs. High oil prices increase the price of gasoline consumers buy and also affect the costs of business activities including manufacturing and transportation.

c. **In general, these factors affected all countries, not just the US.** According to the World Bank, the US had 8.0% consumer inflation in 2022, very similar to the average of other large, advanced countries (7.4%). Seven of these countries, or about half, had 2022 inflation rates higher than the US. (5)

Consumer Price Inflation by Country

	2020	2021	2022	2023	2024
Australia	0.8%	2.9%	6.6%	5.6%	3.2%
Austria	1.4%	2.8%	8.5%	7.8%	2.9%
Belgium	0.7%	2.4%	9.6%	4.0%	3.1%
Canada	0.7%	3.4%	6.8%	3.9%	2.4%
Czechia	3.2%	3.8%	15.1%	10.7%	2.4%
France	0.5%	1.6%	5.2%	4.9%	2.0%
Germany	0.1%	3.1%	6.9%	5.9%	2.3%
Israel	-0.6%	1.5%	4.4%	4.2%	3.1%
Italy	-0.1%	1.9%	8.2%	5.6%	1.0%
Japan	0.0%	-0.2%	2.5%	3.3%	2.7%
Netherlands	1.3%	2.7%	10.0%	3.8%	3.3%
Spain	-0.3%	3.1%	8.4%	3.5%	2.8%
Sweden	0.5%	2.2%	8.4%	8.5%	2.8%
Switzerland	-0.7%	0.6%	2.8%	2.1%	1.1%
United Kingdom	1.0%	2.5%	7.9%	6.8%	3.3%
United States	**1.2%**	**4.7%**	**8.0%**	**4.1%**	**2.9%**
Average, Excluding US	**0.6%**	**2.3%**	**7.4%**	**5.4%**	**2.6%**

Source: World Bank Group, https://data.worldbank.org/indicator/FP.CPI.TOTL.ZG
Note: Data not available for South Korea

- In 2023 US inflation recovered faster than in these other countries. Our average was 4.1% compared to 5.4% for the others.
- **Although US inflation quickly returned to levels similar to the long run average (it fell to just over 3% by mid-2023, and has been below 3% since mid-2024), the cumulative effect of this high inflation in 2022 and early 2023 is still with us - consumers feel (correctly) that prices are now much higher than they were just a few years ago. This is why inflation and affordability remain top issues for voters.**

d. High inflation is a problem for many reasons:

- **Reduced purchasing power.** This is the most obvious effect - consumers cannot buy as much with the same amount of money as before, which lowers the standard of living. This is especially true for households on a fixed income or whose incomes don't keep pace with rising prices. (6)
- **Lower income households are the hardest hit.** Lower income households, including many retirees, are hurt more by high inflation because they spend a larger share of their income on essentials like food and energy, which are often most affected by price increases. (7)
- **More business uncertainty.** High inflation introduces uncertainty into the economy, making it difficult for businesses to plan for future costs and investments. This unpredictability can reduce investment, reduce hiring, slow down economic growth, and increase borrowing costs as lenders demand higher interest rates to offset the higher inflation, which reduces the value of future loan payments. (8)
- **Reduced business earnings.** For many businesses, high inflation means higher costs for raw materials and wages, potentially lower profit margins, or even bankruptcy if they cannot pass rising costs on to consumers. (9)

e. As a result, voters are rightly concerned about inflation

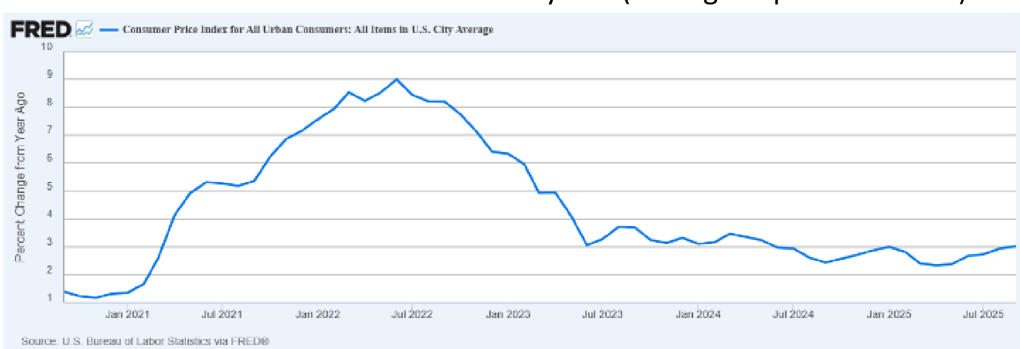
- A poll by UT Tyler's Polling Center in June 2025 found that Inflation was the number one policy concern for Texas voters overall. (10)
- It was also the top concern among Democrats and Independents, and second only to Securing the Border among Republicans.

2. Donald Trump promised to eliminate inflation. However, his economic policies are increasing the risk of higher inflation

a. **During the 2024 campaign, Trump stressed inflation and promised repeatedly to bring it down.** In his inauguration speech in January 2025, Trump said "I will direct all members of my cabinet to marshal the vast powers at their disposal to defeat what was record inflation and rapidly bring down costs and prices." (11)

b. **However, Trump has actually focused very little attention on inflation**, and inflation has stayed well above the Federal Reserve's 2% target so far in Trump's second term. Appendix 1 provides graphs of inflation over the past five years for total consumer spending, food, and housing. These graphs show that overall inflation has not declined under Trump. Inflation in food has actually increased relative to Biden's last year in office, despite Trump's frequent claims that food inflation is down. (12)

Total Consumer Price Inflation – last five years (through September 2025)



Source: Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/CPIAUCSL#

The average year-over-year inflation rate in the last six months of 2024 was 2.69%. The average for 2025, through December, has been almost exactly the same, 2.70%. The year-over-year rate for the month of December was virtually the same, at 2.65%. The current Republican administration has not reduced inflation. (12)

c. Many of Trump's most visible policies threaten to increase inflation even more.

- **Tariffs -** Trump has imposed high tariffs on most of our trading partners. Tariffs are a tax on consumers, because they are paid for by importers, who then often pass the costs onto consumers. (13) This obviously raises prices.

- **The harsh immigration crackdown -** Trump's harsh crackdown on undocumented immigrants, including many people who have been in the US for a long time and are here legally, is disrupting labor supply. This can lead to inflation by reducing the supply of goods, and by forcing businesses to pay higher wages to meet labor shortfalls. (14)

- **Large Deficits** - the Federal government is running large budget deficits, and the Trump administration's actions are accelerating those deficits.
    - The Congressional Budget Office projects America's debt-to-GDP ratio will approach 120% under current law, surpassing the prior record reached in 1946 in the wake of World War II. (15)
    - Trump's "Big Beautiful Bill", also known as Public Law 119-21, was signed by President Trump on July 4, 2025. The Congressional Budget Office projects that this bill will result in a net increase in the unified budget deficit totaling $3.4 trillion over the 2025-2034 period, relative to their baseline estimates before that bill. That increase in the deficit is estimated to result from a decrease in direct spending of $1.1 trillion and a decrease in revenues of $4.5 trillion (by extending tax cuts that mostly benefit high-income households and corporations). (16)
    - The Budget Lab at Yale points out that increased Federal debt increases the risk of inflation in several ways, including by putting more money into the economy (more dollars chasing the same amount of supply) and by increasing inflation expectations, which often leads to increases prices as companies try to get ahead of future anticipated inflation. (15)

- **Threatening the independence of the Federal Reserve Bank.** The Fed is responsible for managing U.S. monetary policy, regulating bank holding companies and other member banks, and monitoring systemic risk in the financial system. It has a dual mandate: first, to maintain stable prices, and second, to achieve full employment. Specifically, the Fed sets an annual inflation target of 2 percent. (17)
    - In pursuing these goals, the Fed's independence is critical. It takes a long-term view and is not influenced by short-term political pressures. Its decisions are based on rigorous analysis of facts about the economy and informed by decades of experience in balancing sometimes conflicting goals.
    - Recently, President Trump has threatened that independence - openly criticizing Fed Chairman Jerome Powell, insisting on a cut in interest rates to

spark the economy, and threatening to fire Powell and other Fed leaders. (18)
  - Fox Business points out that "Trump's push to fire Fed Governor Lisa Cook marks the first time a president has tried to fire a Fed official". (19)
  - GOP mega-donor and billionaire Ken Griffin shares the concern about undermining Fed independence: “The president’s strategy of publicly criticizing the Fed, suggesting the dismissal of governors, and pressuring the central bank to adopt a more permissive stance toward inflation carries steep costs,” he wrote for the Wall Street Journal opinion page. **“These actions raise inflation expectations, increase market risk premiums, and weaken investor confidence in U.S. institutions.”** (20)

In that Wall Street Journal article, Ken Griffin also criticized “the inflationary aspects of large-scale deportations and the moral costs of expelling hardworking immigrants who may have entered the country illegally long ago.” He also dinged the big, ugly bill for running up the debt to astronomical levels. (20)

Despite his promises to eliminate inflation, Trump's actions are only making it worse.

3. We need smart policies to effectively manage inflation

a. End the harmful tariffs.

- Tariffs can be a useful tool to respond to inequitable trade policies by other countries. For example, if a country subsidizes a product in order to artificially reduce its price to other countries (sometimes called dumping), targeted tariffs can be used to protect domestic industries from what is seen as unfair price competition.
- However, Trump’s tariffs have been deep, broad-based and arbitrary. These high and extensive tariffs can lead to inflation because they are paid by importers. Those importers often pass the cost on to consumers, leading to higher prices.
- Economists from major Wall Street firms, including Goldman Sachs, UBS, and JP Morgan Chase predict that Trump's tariffs will increase inflation. (21)

b. **Address affordable housing** - because housing is a large part of household budgets and because the cost of housing has risen sharply in recent years, housing is a major driver of inflation. The chief economist for the National Association of Realtors recently stated "The jumbo heavyweight of inflation is housing costs. Getting shelter costs under control with more housing supply will be the key to getting overall inflation fully tamed..." (22) This also creates jobs.

c. **Protect the independence of the Federal Reserve.** The Fed should be able to pursue its dual mission (maintaining stable prices and full employment) without political interference. **Even Fox Business supports Fed independence**, observing "The independence of the Federal Reserve from political influence in its monetary policy decisions has been credited as being a pivotal safeguard for the U.S. economy and its role in the global economy. Economic research has found that political interference in central banks around the world has contributed to higher inflation, weaker currencies and reduced stock prices." (23)

d. **Address the deficit - end the tax breaks for the wealthy -** The Economic Policy Institute points out "Expanding public investment and raising federal revenue via taxes that mostly come from high-income households is the most optimal way to close fiscal gap, boost economic productivity, and produce a fairer economy." (24)

e. **Invest in productivity and workforce development - a stronger, more productive workforce increases the supply of goods, which can help to reduce inflation and helps to build a stronger middle class.**
   - The Center for American Progress explains, "A growing labor supply has several economic benefits. First, it can help bring down inflation over the medium term without causing an economic downturn. Greater employment opportunities at a time when employers need more workers would help ease supply-side bottlenecks caused by workforce shortages.
   - Furthermore, growing the labor supply today is critical for addressing the potential future challenges that result from demographic changes, particularly an aging population. According to the Federal Reserve Bank of Atlanta, the number of U.S. people between the ages of 25 and 54 has remained flat since 2019, while the number of Americans older than 65 has increased by nearly 5 million. **By increasing labor supply, policymakers can help reduce inflationary pressures over the longer term.** (25)

Bottom line: High inflation and affordability are valid concerns for US households. Trump administration actions are keeping inflation relatively high and are increasing the risk of accelerating inflation in the future.

We need to elect leaders who will take responsible action to reduce inflation, including ending Trump's harmful tariffs, addressing the housing crisis, protecting the independence of the Federal Reserve, reducing the deficit and investing in a stronger US workforce.

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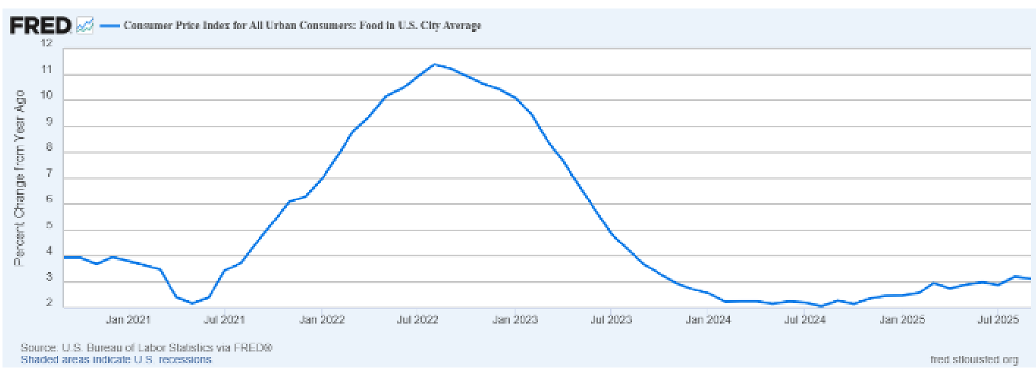
Appendix 1 – Inflation over the past five years – Total CPI, Food, Housing

The Federal Reserve Bank of St. Louis reports inflation in total and for specific product and service categories, at https://fred.stlouisfed.org/series/CPIUFDSL#. Shown here are the total and two of the largest spending categories.

1. **Total Consumer Price Index** – total inflation was below 3% at the end of the Biden administration, and under Trump it has increased and is above 3% as of Sept. 2025.

2. **Food** - average in Biden's last year 2.26%, average so far under Trump (through September 2025) – 2.92% - Inflation is up over .5% under Trump.



3. **Housing** – Inflation in Housing has remained relatively high – 4.2% in the last 6 months of the Biden Administration, and 3.8% average for Trump through December 2025.