Imported Goods Have Been Getting Cheaper Relative to Domestically Produced Goods

The Council of Economic Advisers

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Imported Goods Prices Falling, Not Rising

The Council of Economic Advisers (CEA), after decomposing the Personal Consumption Expenditure Price Index into imported and domestic components, found that the prices of imported goods have not only *fallen* this year, but also declined faster than overall goods prices since February. These findings contradict claims that tariffs or tariff-fears would lead to an acceleration of inflation.

More commonly referred to as PCE or PCEPI, the Personal Consumption Expenditure Price Index is an inflation gauge watched closely by policymakers and financial markets. Overall goods prices in the PCE index have increased by 0.4 percent from December 2024 through May 2025, which corresponds to a 1 percent annualized rate. Meanwhile, the imported component of PCE goods prices *fell* by 0.1 percent from December 2024 through May 2025. CEA's directional findings using this method of analyzing the PCE are consistent across core goods (excluding food and energy), durables (which last for at least three years), and nondurables. The import contribution to inflation includes both the direct impact of imported final goods for consumption and indirect effects of imported intermediate inputs.

Similar analysis for the widely used Consumer Price Index (CPI) shows that imported goods have *deflated* 0.8 percent while overall goods prices have remained constant. There are a number of differences between PCE and CPI inflation, including scope of products included and weighting methodologies, so finding a similar pattern for CPI highlights the robustness of the results.

Methodology

To decompose PCE inflation into the import and domestic components, CEA uses the 2017 input-output tables from the Bureau of Economic Analysis to calculate the import intensity of each of the PCE components. The imported component of PCE includes direct effects of imported goods for final consumption, as well as indirect effects of imported intermediate inputs. Direct import share is defined as imported PCE divided by total PCE for that commodity. CEA then maps goods to PCE categories using the PCE bridge table. The indirect effect of imports is calculated as total imported intermediate inputs for an industry divided by total industry output, which is converted to commodity output categories using the input-output tables. CEA then converts these intermediate imports to PCE categories using the bridge table. The total import share for a PCE category is the combination of the direct and indirect contribution shares.

To calculate the import price index, individual category seasonally-adjusted indices are aggregated by multiplying the import share for each category by the seasonally-adjusted spending for that category in each month. Import spending totals are then used as weights to aggregate the component price indices using the Fisher price index formula.

Using the import shares for PCE categories, CEA performs similar analysis for CPI by mapping categories across the indices. Occasionally, CEA aggregates categories or uses the most suitable categories when there's no like-for-like category in the CPI.

This analysis comes with a couple of important caveats. First, while PCE does capture goods substitution, because the import shares are fixed, this analysis does not fully capture substitution effects. Moreover, PCE

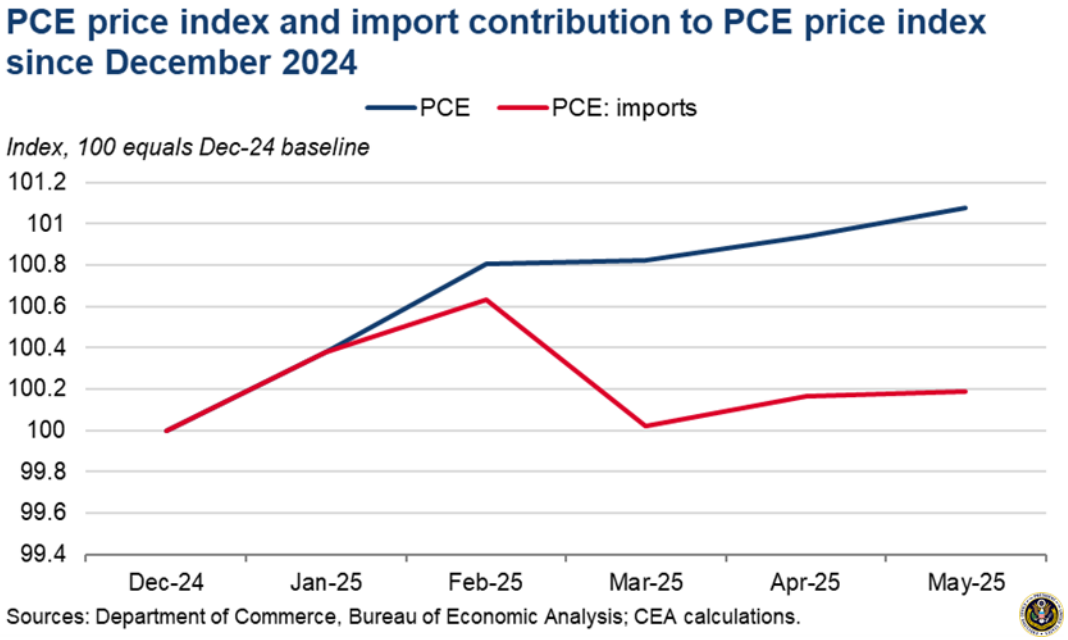
does not distinguish category-level price indices between imported and domestic goods, and so those category-level prices will impact the indices differently through the differences in weights (e.g., import intensive categories will have more weight in the import component of PCE).

Related Federal Reserve Board analysis (Minton and Somale, 2025) uses the input-output tables to estimate the impact of the China tariffs on overall inflation through March 2025.[1] They estimate China import shares for each PCE category to generate predicted price changes due to tariffs, which they compare to excess inflation in particular categories during different tariff episodes and find that tariffs have contributed to core PCE goods inflation through March. A major difference between their study and CEA's analysis is that by only focusing on China, effects from non-China import prices could be missed, with the result that the analysis does not present an accurate picture of the overall impact of tariffs on prices Americans pay for goods in general. For example, in an analysis of online prices from four retailers, Cavallo, et al (2025 – June 16 version) find an increase in prices on goods imported from China, but declining prices on goods imported from Mexico, since tariffs were implemented on March 4 through June 12. Cavallo, et al do find that imported goods prices overall have increased by more than domestic goods prices, but their study only contains data from 4 retailers and has a limited product coverage relative to the broader PCE aggregates. They also only have data since October 1, 2024, which makes it difficult to distinguish their results from normal variation or differential seasonal patterns for domestic and imported goods.

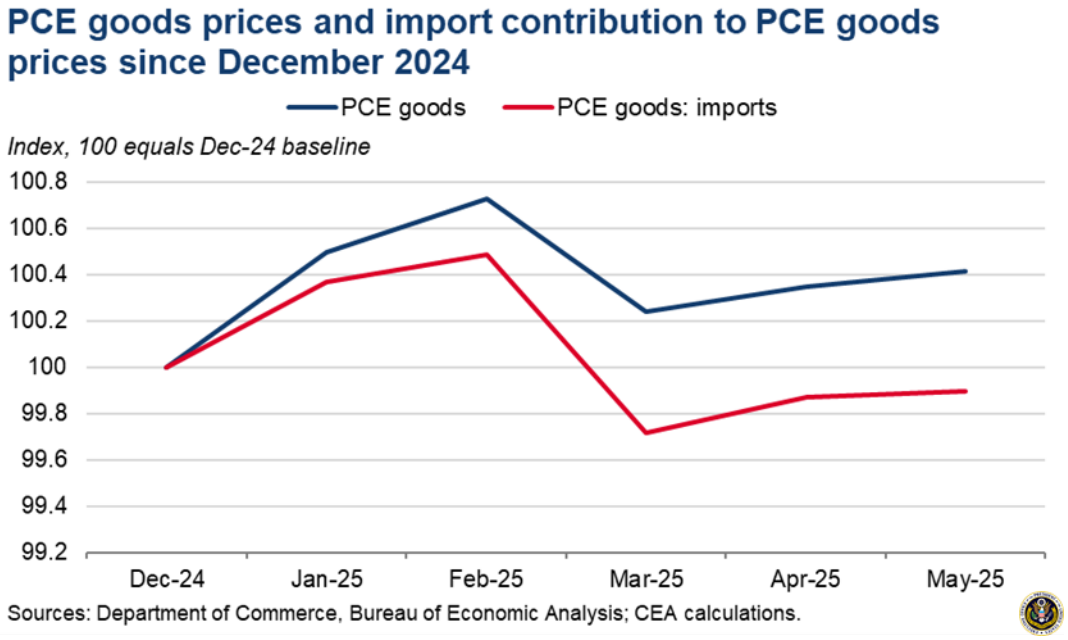
Results

CEA compares the imported subindex to overall prices for the period starting December 2024 and ending May 2025 to capture effects from President Trump's policies in his second term. The results clearly show the price of imported components declining, starting in March, while overall prices were close to unchanged or increased slightly. Cumulatively, overall PCE prices have increased by about 1.1 percent since December compared to about 0.2 percent for PCE import prices. However, those values include pricing for services, which tend to have lower import intensity, so the divergence could be due to stickier services prices.

[1] Barbiero and Stein (2025) is another recent paper that uses the I-O tables to estimate the import intensity of PCE categories in order to predict the impact of tariffs on inflation.



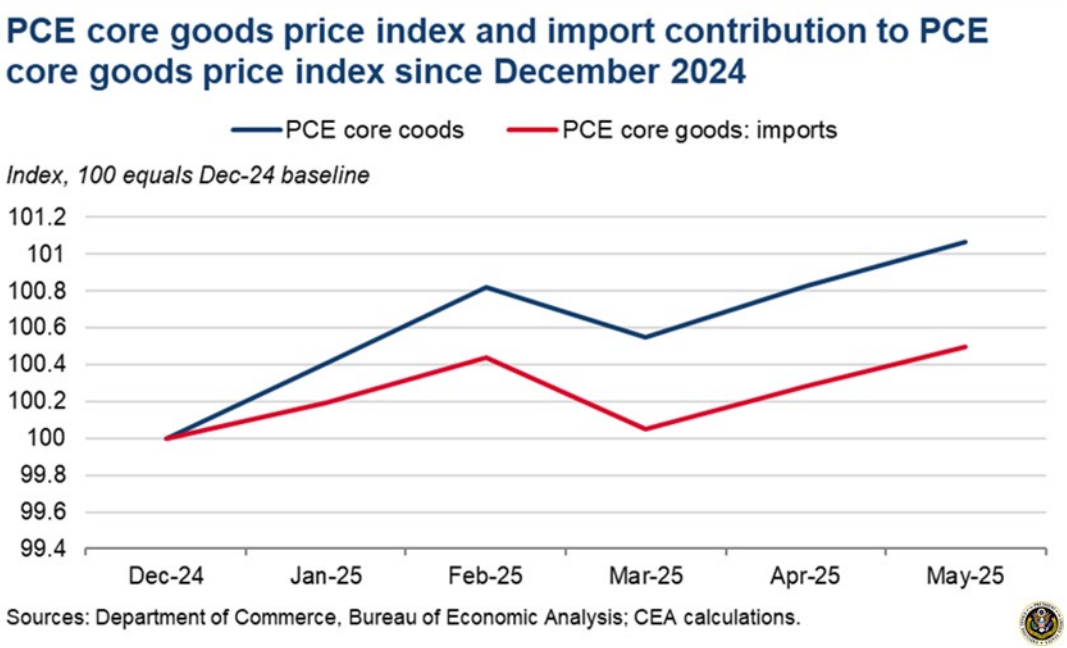
When removing service prices and focusing only on goods, outright deflation in imported goods starts in March whereas overall prices for goods still increase. From December 2024 to May 2025, overall PCE goods prices have increased by 0.4 percent while PCE import goods prices have declined by 0.1 percent.



Declining energy prices, which are weighted more heavily in imported PCE goods compared to overall PCE goods, contribute to the lower PCE goods import inflation. However, if the lower inflation in imported goods

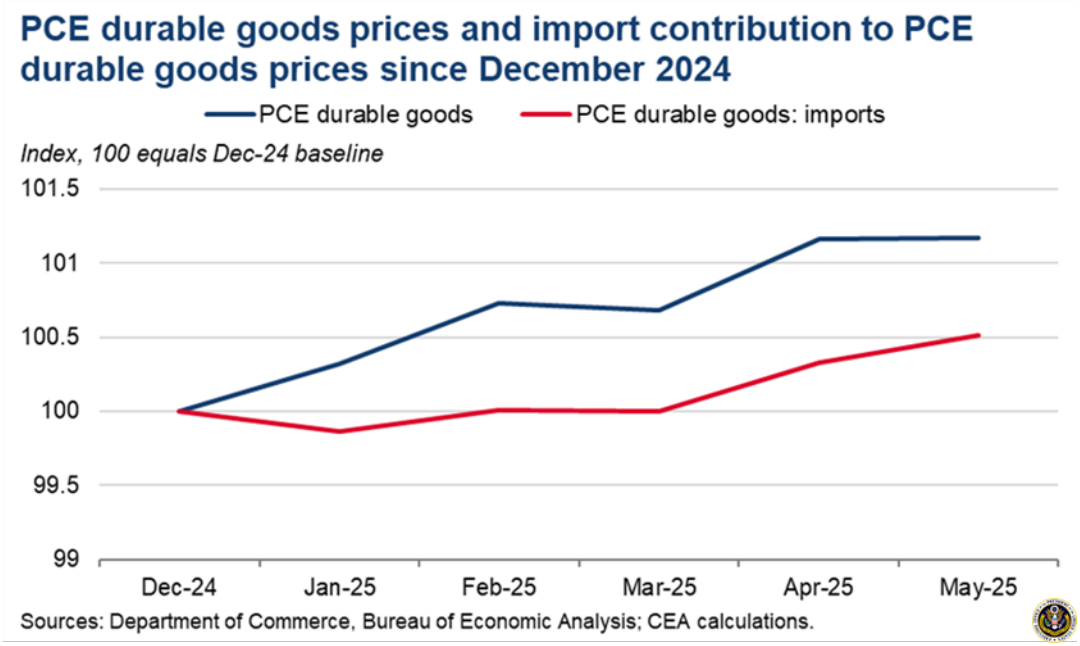
is due to greater energy intensity, it underlines the point that tariffs are very much not a first-order consideration for inflation.

Moreover, PCE imported core goods (which exclude food and energy price) still increased by less than overall core goods over this period.

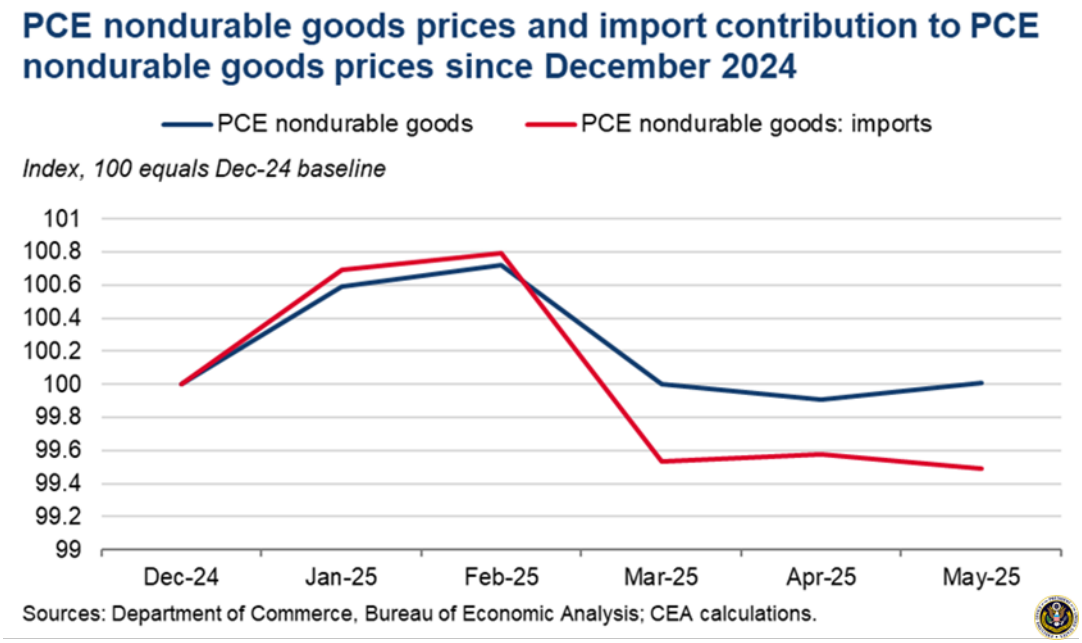


Looking at core goods removes the direct impact of energy, though energy may still contribute through indirect effects of imported intermediate inputs—which highlights why President Trump's energy abundance agenda is so important to combatting overall inflation.

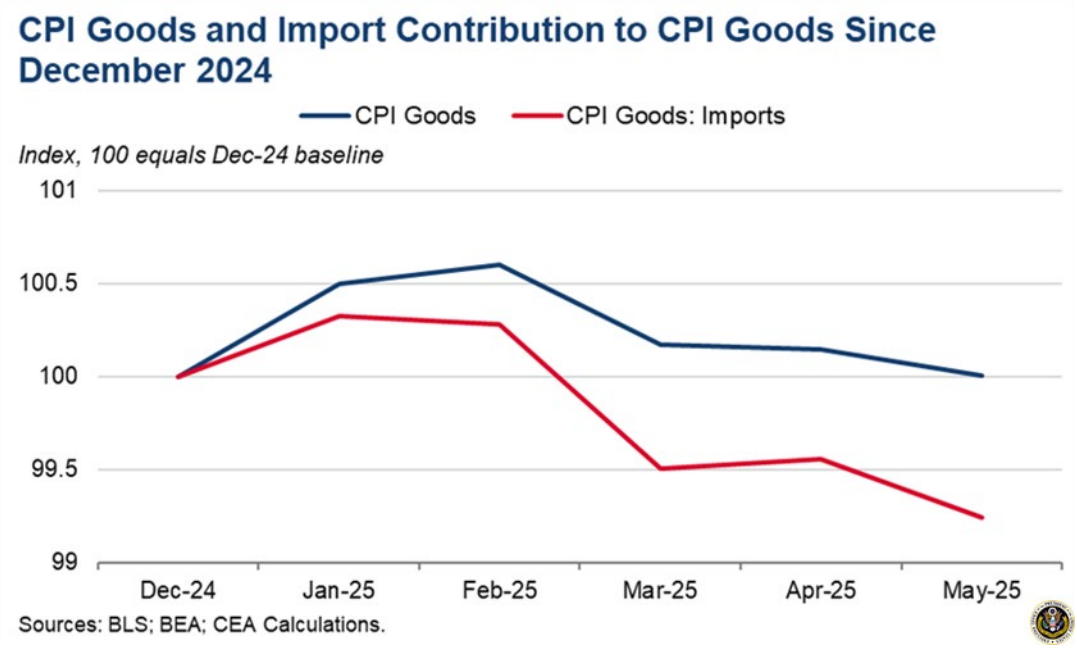
We can also look at the subcomponents of PCE goods. The import component of PCE durable goods has increased by less than overall durable goods prices.



PCE nondurable goods prices fell across the board during the period analyzed, but price decreases were even more extreme for imported nondurables.



CEA sees similar results in our analysis of CPI inflation with the import component of CPI goods prices falling this year while overall CPI goods prices are flat.



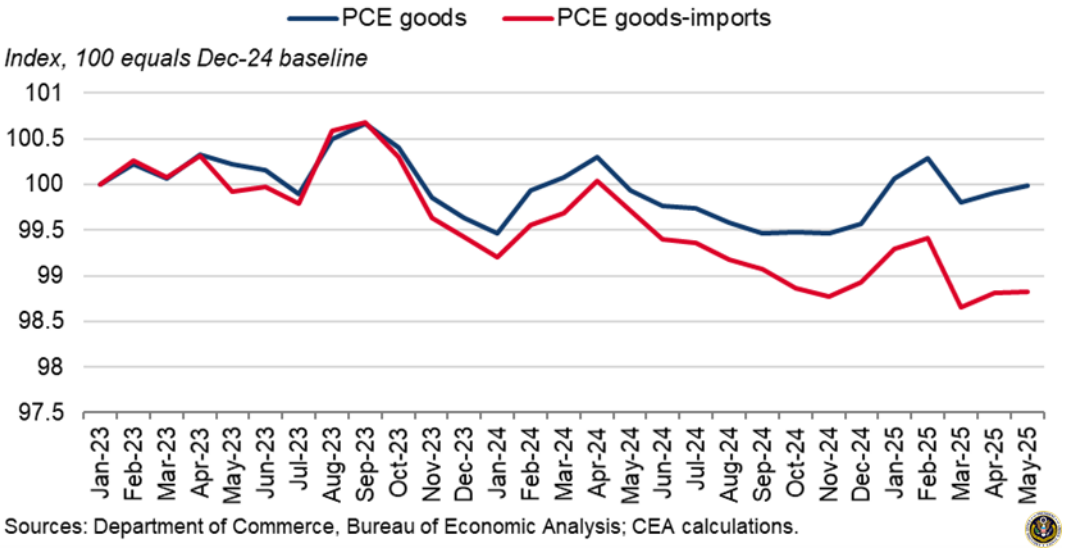
The following table summarizes the price changes for PCE and CPI goods and their import components:

Monthly Percent Change	PCE – goods*	PCE – goods imports	PCE – core goods*	PCE – core goods imports	CPI – goods*	CPI – goods imports
Jan 2025	+0.50	+0.37	+0.41	+0.19	+0.50	+0.33
Feb 2025	+0.23	+0.11	+0.41	+0.24	+0.10	-0.05
Mar 2025	-0.48	-0.76	-0.27	-0.39	-0.42	-0.77
Apr 2025	+0.11	+0.16	+0.27	+0.24	-0.02	+0.05
May 2025	+0.07	+0.02	+0.24	+0.21	-0.14	-0.32
Cumulative: Dec 2024 to May 2025**	+0.41	-0.11	+1.06	+0.50	+0.00	-0.76

*Note these changes may not quite equal the published versions. For PCE, the published version cannot be exactly replicated given the level of published detail for the component series. The CPI calculation used is an approximation using published relative importance and the seasonally adjusted component indices and does not account for the weight of unsampled categories.
** The aggregate of the monthly changes may not equal the cumulative change due to rounding.

Of course, this analysis does not identify the counterfactual in which tariffs are not instituted. Goods and imported goods prices started to diverge towards the end of 2023, and have continued since. Importantly, there is no clear trend break so far this year.[2] This analysis suggests that tariffs have not reduced the disinflationary impulse from imported goods as of May.

PCE goods prices and import contribution to PCE goods prices since January 2023



Sources: Department of Commerce, Bureau of Economic Analysis; CEA calculations.

[2] Also, the longer time series shows that the lower import inflation at the start of the year is not due to differential seasonal patterns.