# BOX I.2:

## Inflationary risks in the United States

The central scenario of this IPoM foresees an increase in inflation in the United States, concentrated in 2025 and 2026, as a result of that government's tariff policy (see details in Box II.2 of the June 2025 IPoM). It should be noted that this increase is in line with the market projections and the Fed's dots. However, there are risks surrounding this forecast that could lead to monetary policy in the American economy following a less expansionary path than that anticipated by the market and the one considered in the central scenario of this IPoM, affecting the financial conditions relevant to emerging economies. In particular, the risks associated with the ultimate impact of higher tariffs on inflation dynamics, of immigration policy on the labor market, and of more challenging fiscal prospects stand out.

First, although tariffs' inflationary effects are not yet clearly visible in the aggregate data, the disaggregated figures show that the most exposed goods have seen greater price increases (Figure I.26). Similarly, using online sales price data from large U.S. retailers, Cavallo et al. (2025) find that there have been greater increases in the prices of imported goods than in those of domestic production. As uncertainty about the final level of tariffs and anticipation practices dissipate, a scenario of more significant impacts of tariffs on aggregate figures than those considered in market projections may materialize.[1] The persistence of these effects will depend, among other things, on how they affect agents' expectations.

To the latter, it is added that immigration policies have significantly reduced the inflow of immigrants (Figure I.27), compounded by direct deportations and reduced participation due to fear of workplace detentions. On this point, the *July Beige Book* noted that companies perceived fear of deportation to be a significant factor in their loss of foreign workers. Consistently, data from the U.S. Bureau of Labor Statistics show that, compared to March of this year, the labor participation rate of foreigners has fallen by almost 1.5 percentage points (pp), while that of natives has remained relatively stable (Figure I.28). This represents a contractionary labor supply shock, which reduces the pace of job creation and activity, and puts upward pressure on wages. Cheyre et al. (2025) show that this situation would be generating an increase in real wages of around 0.1 pp per month above their average, compared with below-average declines of the same magnitude during the period of highest migrant inflows (Figure I.29). Thus, the real wage level would be between 0.7 and 1.0 pp above a scenario without the policy change, a factor that exerts greater inflationary pressures.

On the other hand, the fiscal package approved on 4 July includes temporary tax cuts and increased spending in defense and immigration control, while planned spending cuts would be implemented gradually as from the end of 2026, concentrated in the years 2029 to 2034. The fiscal boost resulting from these measures is estimated to be between 0.2 and 0.4 pp of GDP growth in 2026,[2] which would add demand pressures on prices. Going forward, the fiscal deficit is projected to remain above 6% of GDP.

---

[1] For details, see Cheyre et al. (2025).

[2] Compilation of investment banks and economic organizations estimates, such as Barclays, Bank of America, J.P. Morgan, Morgan Stanley, Penn Wharton, and UBS.

In this context, there has been an incipient increase in market inflation expectations. Breakeven inflation rate implicit in asset prices can be broken down into a component of pure expectations—which would reflect market's average point projection for inflation—and a component of risk associated with those expectations—which reflects uncertainty surrounding that projection. Since the end of last year, one-year breakeven inflation has risen by around 100 basis points (bp) to 3.4%. This is mainly due to the increase in pure expectations, although in recent months the premium component has also risen, contributing around 15 bp to the increase of the last month (Figure I.30). This is consistent with various consumer and business expectations surveys. At longer maturities, breakeven inflation and surveys show more moderate increases. However, the increase of two-year expectations stands out in the margin.

## Conclusion

The US economy faces a set of shocks that raise inflationary risks in the short and medium term. If these shocks materialize, the Fed's monetary policy could deviate from what market currently expect and from the central scenario presented in this IPoM, which would tighten financial conditions worldwide, especially in emerging economies.

**FIGURE I.26**

Inflation of goods exposed to tariffs (1)
(accumulated inflation excess since Jan. 24, percentage points)



**FIGURE I.27**

Net flow of unauthorized immigrants
(thousands)
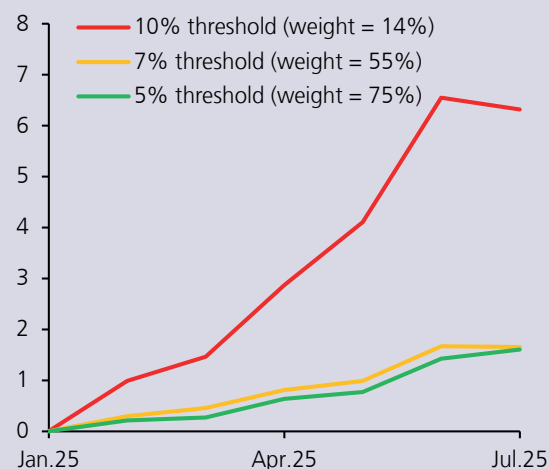


(1) The threshold is defined based on the expected impact on each product (e.g., items with high tariff exposure—10% threshold—those with an estimated impact of at least 10%). Inflation excess is computed as observed inflation minus the six-month moving average through January 2025.
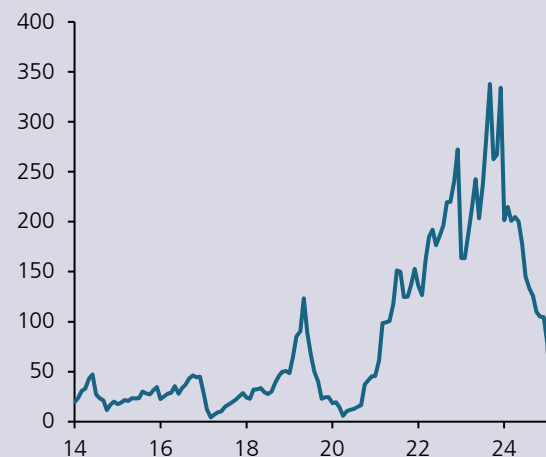Sources: Cheyre *et al.* (2025) and Dallas Fed.

**FIGURE I.28**
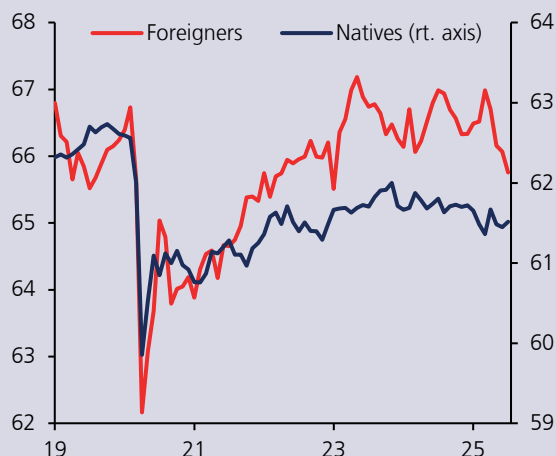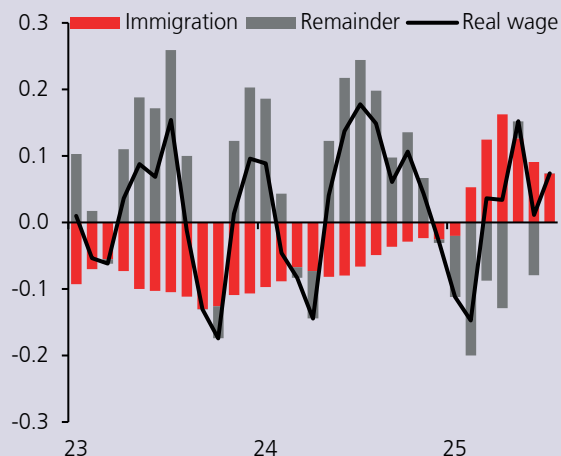Labor force participation rate
(percent)



**FIGURE I.29**
Real wage growth (1)
(monthly change, quarterly moving average, deviation from the average, percentage points)



(1) VAR model with net flows of unauthorized immigrants as an exogenous variable. For immigration, the Dallas Fed series is used, and net flows are assumed to remain at the March level through July. The figure represents deviations from the 2013.10 - 2025.07 average.
Sources: Cheyre et al. (2025) and U.S. Bureau of Labor Statistics.

**FIGURE I.30**
One-year inflation swap decomposition (1)
(accumulated since December 2024, basis points)
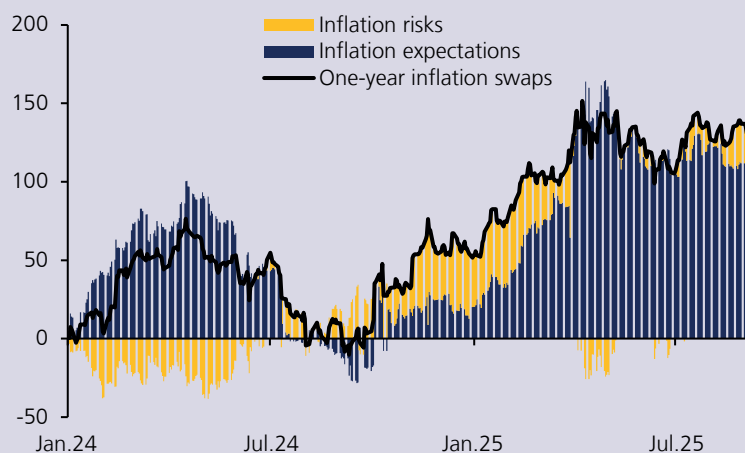


(1) Pure expectations are obtained from Bloomberg analyst surveys. Premium component is the difference between swap and expectations.
Source: Cheyre et al. (2025).