WELLS FARGO

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June CPI Preview: Key Summer Stretch Begins

Economist(s)

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Summary

The June CPI report is likely to show inflation beginning to strengthen again, albeit not enough to alarm Fed officials at this juncture. We expect the headline CPI to rise 0.25% in June, which would nudge the year-ago rate up to 2.6%. Excluding food and energy, we anticipate the core CPI to increase 0.24% and view the risks skewed more to an upside surprise of 0.3% versus another downside surprise of 0.1%. If our forecast is realized, the 3-month and 12-month annualized rates of core CPI would strengthen to 2.4% and 2.9%, respectively.

The next three months will mark a key stretch of inflation data. While inventory front-running has mitigated the need to raise goods prices, it will become increasingly difficult for businesses to absorb higher import duties as pre-tariff stockpiles dwindle. We expect core goods prices to pick up further in the second half of the year as a result, but look for the pass-through to be limited by growing consumer fatigue. Amid a softer labor market and services inflation dissipating a bit more, the pickup in core inflation stemming from tariffs is likely to look more like a bump than a spike.

June 2025 Forecast

	Wells Fargo Economics			Consensus	
	MoM (%)	**3-M Ann. (%)**	**YoY (%)**	**MoM (%)**	**YoY (%)**
CPI	0.25	2.2	2.6	0.3	2.7
Food	0.19	1.6	2.8	-	-
Food at Home	0.12	-0.2	2.2	-	-
Food Away from Home	0.29	4.3	3.7	-	-
Energy	0.58	1.0	-1.0	-	-
Energy Goods	0.90	-6.9	-8.1	-	-
Energy Services	0.25	9.3	7.0	-	-
Core CPI	0.24	2.4	2.9	0.3	3.0
Goods	0.20	0.9	0.6	-	-
Vehicles	0.14	-1.7	1.7	-	-
Other Goods	0.23	2.4	0.3	-	-
Services	0.25	2.9	3.6	-	-
Primary Shelter	0.30	3.7	4.1	-	-
"Super Core"*	0.19	1.8	3.0	-	-
Not Seasonally Adjusted	**Index**	**MoM (%)**	**YoY (%)**	**Index**	**MoM (%)**
CPI	322.462	0.31	2.6	322.597	0.3

Forecast as of: July 08, 2025; Bloomberg Consensus

*Core services CPI excluding rent of primary residence and owners' equivalent rent (i.e., excluding "Primary Shelter")

Source: U.S. Department of Labor, Bloomberg Finance L.P. and Wells Fargo Economics

Pickup in June Inflation Won't Be Enough to Rock the Boat

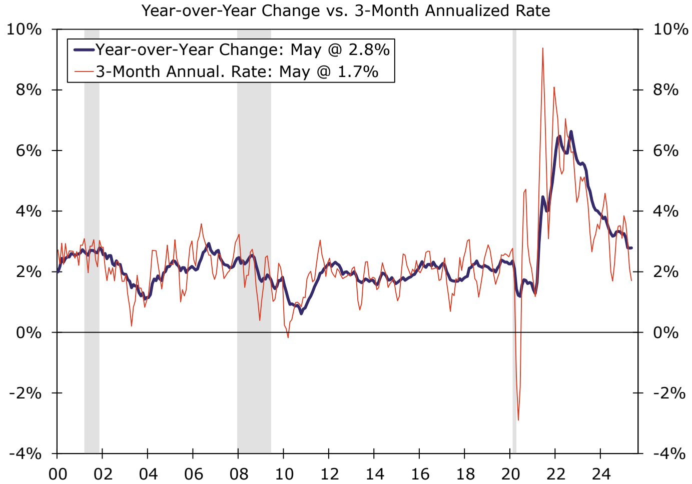
The next three months will mark a key stretch of inflation data. FOMC Chair Powell has made clear that he will be watching price reports over the summer to discern if tariffs are reversing the disinflationary trend that has been underway the past three years. The past two CPI reports have shown some signs of tariffs within the goods sector, but not enough to spring the overall trend in inflation higher. We expect the June CPI report to show inflation beginning to strengthen again, albeit not enough to alarm Fed officials at this juncture.

We estimate headline CPI rose 0.25% in June, a bit stronger than its average pace since the start of the year (0.19%) and enough to nudge the year-ago rate up to 2.6%. Gasoline prices were up in June on a seasonally-adjusted basis, but continue to decline year-over-year to give consumers some breathing room. Another drop in egg prices and prior easing in food-related commodity prices point to a smaller monthly advance in food inflation.

Excluding food and energy, core inflation looks to have picked up in June. We anticipate a 0.24% increase, and see the risks skewed more to an upside surprise of 0.3% versus another downside surprise of 0.1%. If our forecast is realized, the 3-month and 12-month annualized rates of core CPI would strengthen to 2.4% and 2.9%, respectively—a bit stronger than the pace the past few months but still relatively mild in the context of the past four years (chart).

U.S. Core Consumer Price Index

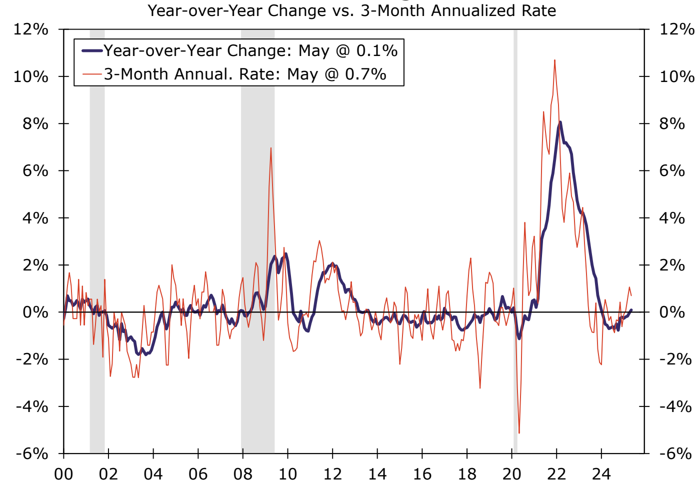
Year-over-Year Change vs. 3-Month Annualized Rate



Source: U.S. Department of Labor and Wells Fargo Economics

Core Goods Excluding Used Autos

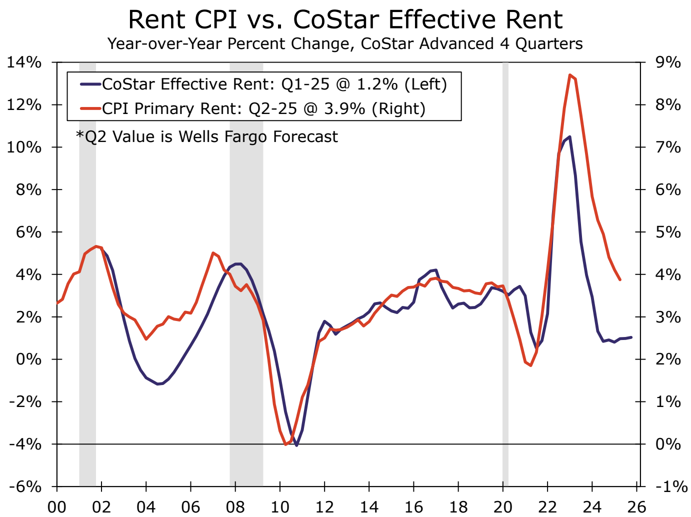
Year-over-Year Change vs. 3-Month Annualized Rate



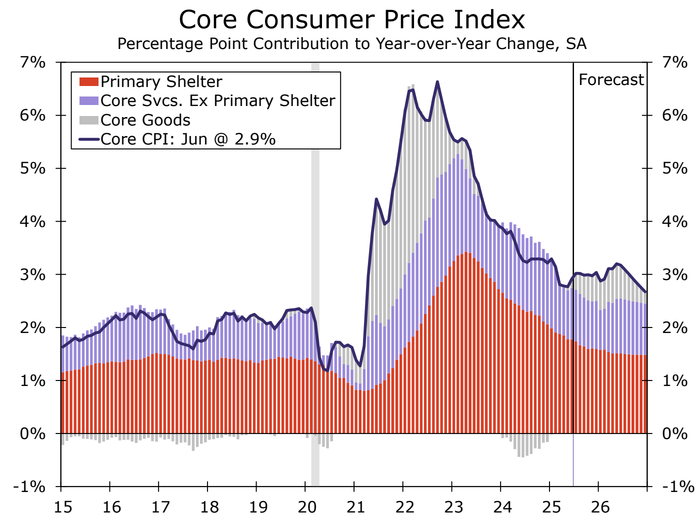
Source: U.S. Department of Labor and Wells Fargo Economics

With businesses settling into the higher tariff environment, we anticipate the upswing in goods prices continued in June (chart). Core goods prices likely rose 0.2% last month. Tepid demand for new autos after a pull-forward in purchases this past spring is keeping a lid on new vehicle prices for now, but wholesale auction prices point to used vehicle prices rebounding in June. Other core goods, including household and recreation products, are expected to continue their advance. Apparel in particular looks poised to strengthen after two months of below-trend readings.

But it is not just goods inflation that is likely to be firmer in June. After increasing an average of 0.14% since March, we look for core services inflation to rise 0.25%. Primary shelter continues to quiet on trend following subdued growth in market rents (chart), but we look for a slight bounce-back in June after primary rent growth reached a six-month low in May. Meantime, the recent pace of *de*flation for airfare and hotels looks hard to sustain, even with a more cautious consumer. We look for a more modest drop in travel services (-0.2%) in June as a result, and expect a pickup in the second half of the year as seasonal factors are less supportive of further declines. Amid somewhat stronger price increases for medical care and recreation, we estimate the CPI for services excluding primary-shelter advanced 0.2%, helping to stabilize the year-over-year rate of the CPI "super core" at about 3%.



Source: U.S. Department of Labor, CoStar Inc. and Wells Fargo Economics



Source: U.S. Department of Labor and Wells Fargo Economics

Further Strengthening to Come, but Not a Tidal Wave

The effect of tariffs is apparent across a selection of goods, but a broad-based acceleration in prices has yet to meaningfully take hold. Inventory front-running has allowed firms to temporarily avoid higher import duties, slowing the need to adjust prices. As pre-tariff inventories dwindle in the coming months and tariff rates remain significantly higher across trading partners, it will be become increasingly difficult for businesses to absorb the added cost. We expect the 12-month change in core goods prices to pick up from 0.3% in May to 2.3% by the end of the year as a result. The magnitude of the increase would be higher were it not for broadening signs of consumer fatigue and margins in the goods sector that remain higher than their pre-pandemic levels, leaving room for some compression.

More tepid consumer demand should also help to keep stronger goods inflation from spilling over into services. Within services, the gradual disinflation in primary shelter is expected to continue through next spring, while the softer labor market restrains employment cost growth and counteracts the upward pressure on the cost for physical inputs. With services inflation dissipating a bit more, the pickup in core inflation stemming from tariffs is likely to look more like a bump than a spike (chart). We see the year-over-year rate of core PCE inflation moving back up to 3.1% in the fourth quarter before resuming its downward trend back toward the Fed's 2% target in 2026.

Wells Fargo U.S. Inflation Forecast

	Actual					Forecast						
	2024				2025				2026			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
CPI (YoY)	3.2	3.2	2.7	2.7	2.7	2.4	2.8	2.9	2.7	3.0	2.8	2.6
QoQ Annualized	3.7	2.8	1.4	3.0	3.8	1.6	2.9	3.2	3.0	2.7	2.4	2.2
Core CPI (YoY)	3.8	3.4	3.3	3.3	3.1	2.8	3.0	3.0	3.0	3.2	3.0	2.8
QoQ Annualized	4.2	3.1	2.4	3.4	3.5	2.1	3.1	3.4	3.3	2.9	2.5	2.3
PCE Deflator (YoY)	2.7	2.6	2.3	2.5	2.5	2.4	2.8	2.9	2.7	2.9	2.6	2.3
QoQ Annualized	3.4	2.5	1.5	2.4	3.7	1.9	3.2	3.1	2.8	2.4	2.1	2.0
Core PCE Deflator (YoY)	3.0	2.7	2.7	2.8	2.8	2.7	3.0	3.1	3.0	3.0	2.7	2.4
QoQ Annualized	3.7	2.8	2.2	2.6	3.5	2.3	3.3	3.2	2.9	2.5	2.2	2.1

Forecast as of: July 8, 2025
Note: All numbers are percent change.

Source: U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Economics

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