

Economic Indicator — July 15, 2025

## June CPI: Warm but Not Hot Start to Summer

### Summary

Consumer price inflation picked up in June, rising by 0.3% since May and 2.7% compared to one year ago. The faster price growth was largely anticipated by forecasters, as both the headline and core CPI increases were very close to our projections and the market consensus. Core goods prices rose 0.2% in the month, hinting at greater price pressures from the increase in tariffs on U.S. imports. Yet, core services inflation remained relatively tame, registering a 0.25% increase in June.

In the 12 months ending in June, core consumer prices have risen 2.9%. For the optimists, this represents a modest decline in core inflation from the 3.2% rate registered at the end of 2024. For the pessimists, the core inflation rate has been stuck around current levels since February and is still above the central bank's 2% inflation target. With the impact from tariffs still in the early innings, we expect the FOMC to maintain its wait-and-see approach to the fed funds rate at its upcoming meeting on July 29-30.

However, we still expect the FOMC to begin cutting rates at its September meeting. The gradual softening in the labor market that is ongoing suggests monetary policy is still restrictive, and if tariffs remain near current levels (admittedly a major "if" in today's policy environment), then we think the worst-case scenarios around the inflation outlook are increasingly unlikely.

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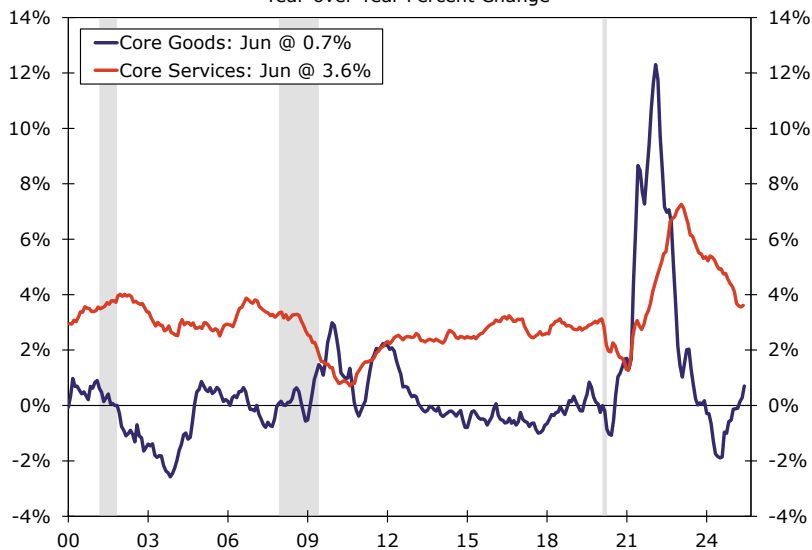
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### Core Goods vs. Core Services CPI

Year-over-Year Percent Change

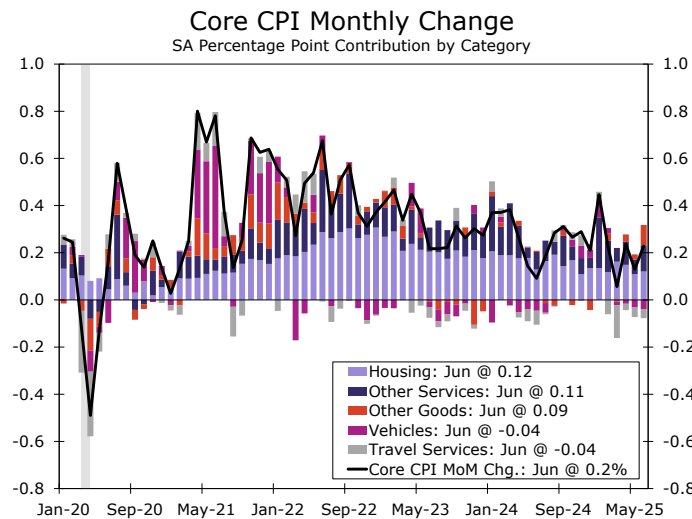


Source: U.S. Department of Labor and Wells Fargo Economics

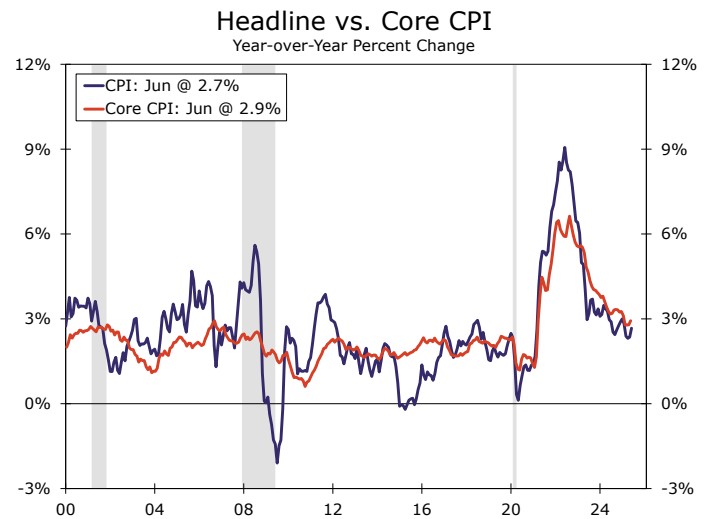
## Tariffs Starting to Rear Their Head

Consumer price inflation picked up modestly in June, with the headline CPI rising 0.3% to meet consensus expectations. Core prices came in a touch softer than the headline (+0.23%), but the rise also marked a pickup from the recent monthly pace. On a year-ago basis, the core index rose to 2.9%, a sign that the downward trend in inflation has started to stall out as tariff headwinds mount.

More signs of tariffs percolating into consumer prices were evident in June. Core goods prices rose 0.20% compared to an average monthly increase of 0.07% the prior six months. The pickup came despite further declines in both new and used vehicle prices as auto sales have struggled in the wake of a pre-tariff rush of purchases. Excluding vehicles, core goods prices rose 0.54%—the strongest monthly increase since early 2022. Price gains were widespread, with household furnishings (+1.0%), apparel (+0.4%), motor vehicle parts (+0.6%), recreational items (+0.8%) and other goods (+0.3%) standing out.



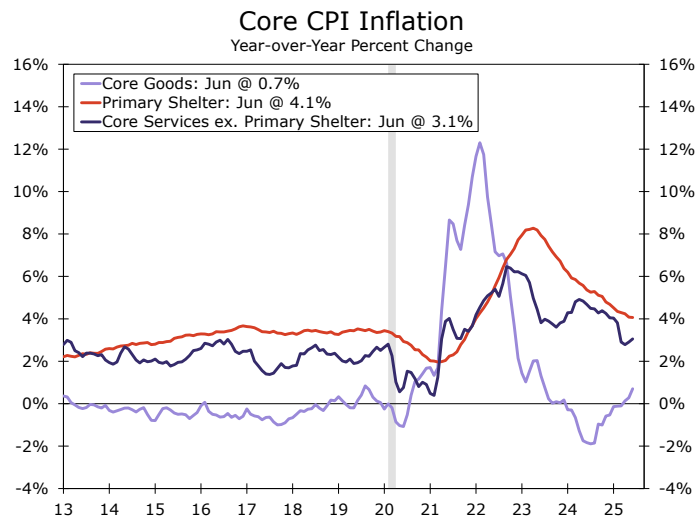
Source: U.S. Department of Labor and Wells Fargo Economics



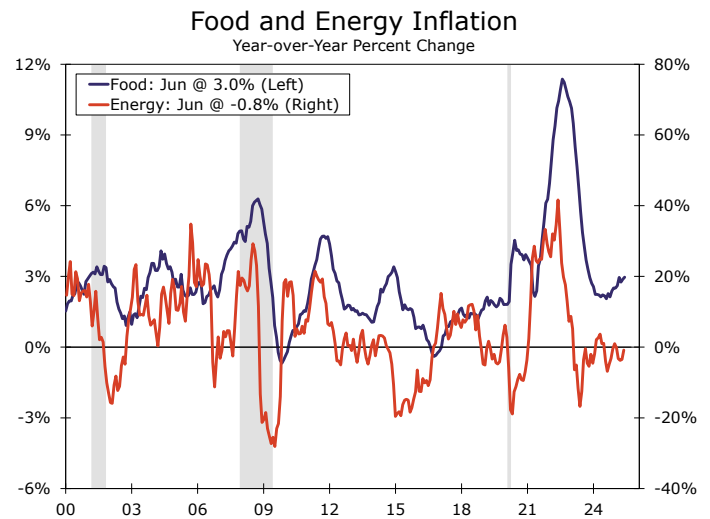
Source: U.S. Department of Labor and Wells Fargo Economics

Core services rose 0.25% in June, a touch softer than its trend over the past six months (+0.27%). Prices for travel services fell for the fifth consecutive month, as hotel prices plummeted 2.9% and airline fares slipped 0.1%. The continued slide in these components is illustrative of a pullback in discretionary spending and points to weakening pricing power among service providers. On the other hand, non-discretionary services inflation strengthened, including a 0.5% increase in medical services prices. Primary shelter inflation modestly firmed, rising 0.3% and leaving the year-over-year rate unchanged at 4.1%. Private sector measures of rents suggest the monthly pace of shelter inflation is close to settling down, limiting further disinflation in this category in the months ahead.

The overall softness in core inflation was counterbalanced by a pickup in food and energy. Prices at the grocery store rose 0.3% for the second straight month, pushing the year-over-year rate up to 2.5%. While much of the U.S. food supply is produced domestically, higher tariffs are likely getting passed on to consumers for imported fruits and vegetables that have short shelf lives and were up 1.0% in June. Away from home, restaurant inflation strengthened 0.4% over the month. Energy prices rose 0.9% as a rebound in gas prices was paired with another strong rise in electricity bills. Despite the solid advance, energy prices are down 0.6% from a year-ago, giving some breathing room for consumers contending with stronger food inflation.



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



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

It is still early days when it comes to assessing the impact higher tariffs will have on consumer prices. June's CPI report was still only a month or two after the large tariff hikes that occurred in April/May. The pass through to consumer prices likely will not be immediate. Furthermore, President Trump has threatened further tariff increases on August 1, and if those are realized, they will present additional upside risks to the inflation outlook in the months ahead. That said, the normalization in services inflation after the pandemic-induced spike and a softer consumer backdrop is helping to mitigate some of the upward pressure on overall prices. We look for core inflation to move back up to about 3% by the end of the year—the wrong direction as far as the Fed is concerned, but a far cry from inflation's recent peak.

For the FOMC, a move higher in inflation in the coming months would represent a reversal of the progress the central bank has made toward lowering inflation. But, "just" 3% core inflation would be a better outcome than some of the worst-case scenarios that policymakers may have feared back in the spring. When paired with the gradual softening in the labor market that we expect to continue in the second half of the year, we believe today's data keep the FOMC on track to cut the federal funds rate by 25 bps at its September meeting. A one-off, modest increase in inflation this year due to higher tariffs is our current base case scenario, and moving monetary policy back toward a neutral stance by the turn of the year strikes us as a reasonable approach given this macro backdrop.

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