

Special Commentary — August 6, 2025

July CPI Preview: Summer Sizzle

Summary

The July Consumer Price Index will bring further signs of higher tariffs pushing up prices. We estimate the core CPI rose 0.3% in July. This would mark the strongest gain in six months and push the year-ago rate back up to 3.0%, as firming goods inflation is no longer being offset by the softening in services. Headline inflation is expected to rise a more modest 0.2% in July due to a drop in gasoline prices and slightly tamer food inflation. If realized, the year-ago rate in the headline CPI would hold steady at 2.7%—a touch stronger than in the spring but lower than the start of the year.

It is still early in the price adjustment process to see how higher import taxes will ultimately be distributed between the end-customer, domestic sellers and foreign exporters. At the same time, growing consumer fatigue is making it more difficult to raise prices in general. We continue to expect inflation to pick up, but not ratchet higher, over the second half of the year, with both the core CPI and core PCE deflator returning to around 3% in the fourth quarter.

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July 2025 Forecast					
	Wells Fargo Economics			Consensus	
	MoM (%)	3-M Ann. (%)	YoY (%)	MoM (%)	YoY (%)
CPI	0.19	2.3	2.7	0.2	2.8
Food	0.22	3.4	3.1	-	-
Food at Home	0.18	2.9	2.5	-	-
Food Away from Home	0.27	4.0	3.9	-	-
Energy	-0.90	-3.7	-1.1	-	-
Energy Goods	-2.10	-13.2	-9.1	-	-
Energy Services	0.30	6.6	8.0	-	-
Core CPI	0.27	2.6	3.0	0.3	3.0
Goods	0.29	1.8	1.2	-	-
Vehicles	0.12	-2.8	1.9	-	-
Other Goods	0.38	4.5	1.0	-	-
Services	0.27	2.8	3.6	-	-
Primary Shelter	0.30	3.4	4.0	-	-
"Super Core"*	0.23	2.0	3.0	-	-
<i>Not Seasonally Adjusted</i>	Index	MoM (%)	YoY (%)	Index	MoM (%)
CPI	323.110	0.17	2.7	—	—

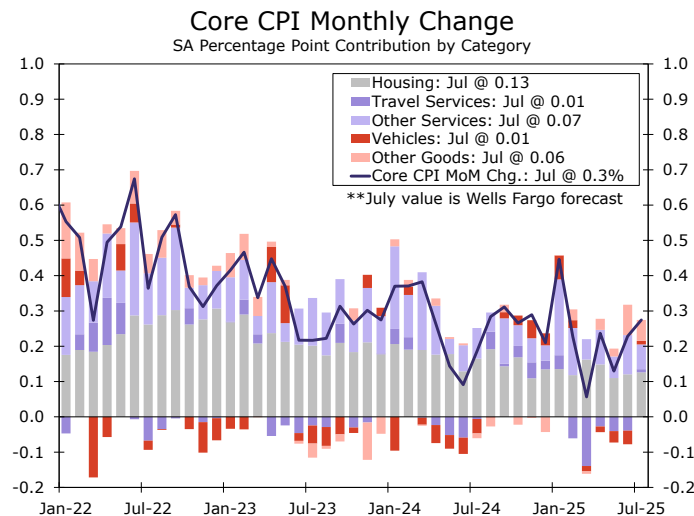
Forecast as of: August 06, 2025; Bloomberg Consensus

*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

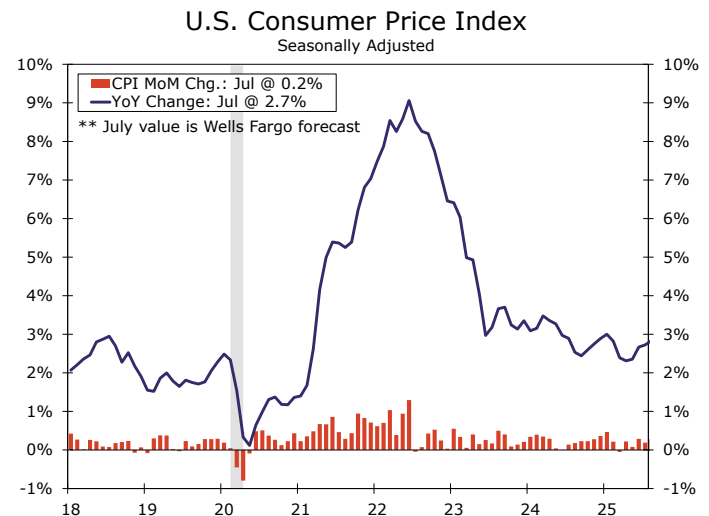
Tariff Pressures Continue to Brew

The June Consumer Price Index brought clear signs of higher tariffs pushing up prices, and the July CPI should deliver more ([chart](#)). We estimate the core CPI rose 0.3% in July, which would mark the strongest gain in six months and push the year-ago rate back up to 3.0%. Headline inflation is likely to register a more moderate gain of 0.2%, however, due to a drop in gasoline prices and slightly tamer food inflation. If realized, the 12-month change in the headline CPI would hold steady at 2.7%—a touch stronger than in the spring but lower than the start of the year ([chart](#)).

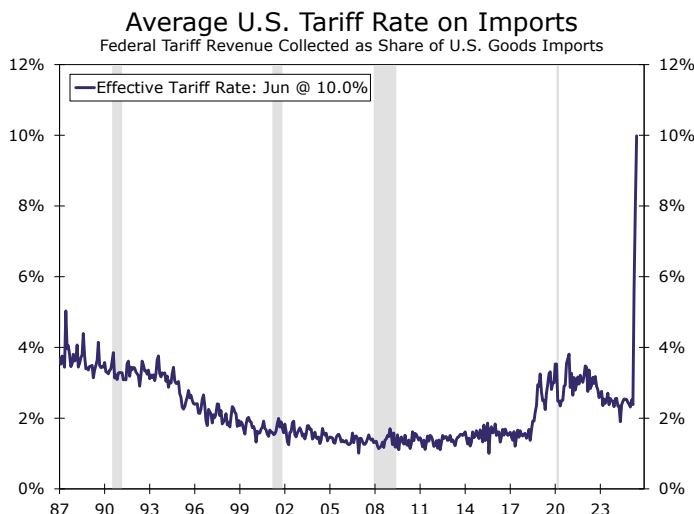


Source: U.S. Department of Labor and Wells Fargo Economics

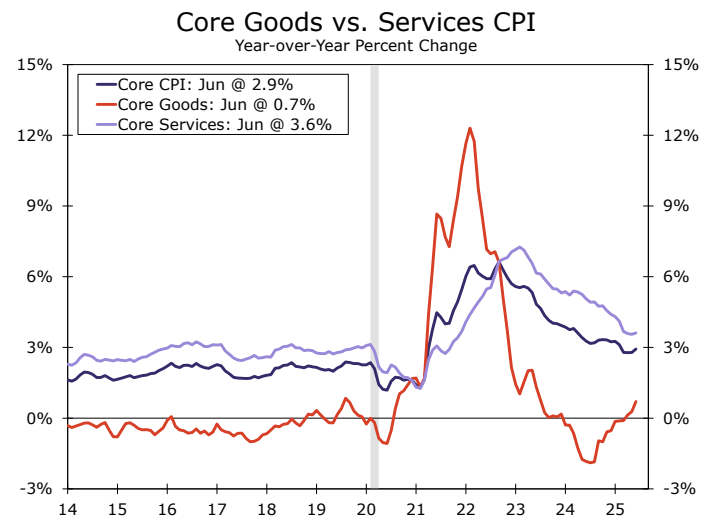
The sideways trend in headline CPI masks heating up in goods inflation under the surface. The initial effect of tariffs on consumer goods prices has been blunted by some pull-forward of inventories and reluctance among businesses to immediately pass on higher costs with tariff rates not yet settled. Yet, the toll on U.S. importers is becoming clearer. In June, tariff revenues as a share of merchandise imports reached double-digits ([chart](#)), with the average effective tariff rate likely to climb into the teens following the flurry of [trade announcements](#) around the Trump administration's August 1 deal deadline.



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



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



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

As a result, we expect to see further evidence of tariff pass-through in goods inflation over the next three to six months. In July, we estimate core goods inflation rose 0.3% (0.28% before rounding), with additional strength in import-heavy categories such as household furnishings, apparel and recreation. Core goods inflation broadly has been held down by declines in vehicle prices the past few months, but the drag looks to have faded in July. We look for vehicle prices to post a modest increase (0.1%) amid a more balanced inventory and sales picture.

Goods account for just one-quarter of the core CPI and a little over one-third of the total index, which has left the cooling trend in services inflation the past year as a vital counterweight to stronger goods inflation ([chart](#)). But the downdraft from slower services inflation is beginning to lessen. We look for a 0.3% increase in core services in July, a bit stronger than the 0.2% monthly gain averaged since March.

Travel categories were a key source of softer services inflation in the first half of the year, as plummeting consumer confidence dampened major discretionary outlays. Yet with airline travel looking more in line with seasonal norms, we look for travel-related prices to have edged back up in July. Meantime, monthly increases in primary shelter (rent of primary residences and owners' equivalent rent) have settled down to around a 0.3% trend since the start of the year, a pace we expect to be maintained through the end of the year based on private measures of rent growth. Remaining categories of services, however, continue to cool on trend. Slower compensation cost growth for healthcare workers should help medical care inflation ease back to a more trend-like increase of 0.3% in July. At the same time, more restrained growth in the cost of repairing and replacing autos points to motor vehicle insurance inflation continuing to weaken over the second half of this year.

Further Scope to Rise, But With the Endpoint Uncertain

We expect inflation to pick up over the second half of the year, with both the core CPI and the core PCE returning to about 3% in the fourth quarter. The outlook for inflation, however, remains unusually uncertain. Tariffs stand to cast a pall over goods inflation for months to come, as it is still early in the price adjustment process to see how higher import taxes are ultimately distributed between the end-customer, domestic sellers, and [foreign exporters](#). At the same time, flat consumer spending over the first half of the year in inflation-adjusted terms highlights increased consumer fatigue that is making it more difficult to raise prices on goods *and* services.

Measurement issues only cloud the outlook further. The BLS has suspended collections in three metro areas and [reduced its sample by 15%](#) in remaining areas due to insufficient resources. We do not believe this will systematically bias the trend in inflation higher or lower, but do expect the reduction to generate more volatility in the monthly data. As a result, the Fed's job in determining which way to lean in its balancing act between stubborn inflation and flagging employment could get even harder in over the next few months.

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	2.5	2.8	2.8	2.7	3.0	2.9	2.7
QoQ Annualized	3.7	2.8	1.4	3.0	3.8	1.6	2.8	3.0	3.2	2.8	2.5	2.2
Core CPI (YoY)	3.8	3.4	3.3	3.3	3.1	2.8	3.0	3.0	2.9	3.1	3.0	2.7
QoQ Annualized	4.2	3.1	2.4	3.4	3.5	2.1	3.1	3.3	3.3	2.8	2.5	2.3
PCE Deflator (YoY)	2.7	2.6	2.3	2.5	2.5	2.4	2.8	2.9	2.8	2.9	2.6	2.4
QoQ Annualized	3.4	2.5	1.5	2.4	3.7	2.1	3.1	3.0	2.9	2.5	2.2	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	2.5	3.3	3.1	2.9	2.5	2.2	2.1

Forecast as of: August 6, 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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