ECONOMIC UPDATE

REGIONS

July 15, 2025

June Consumer Price Index: Pressure On Core Goods Prices (Slowly) Builds Further

- The total CPI rose by 0.3 percent in May (up 0.287 percent unrounded); the core CPI rose by 0.2 percent (up 0.228 percent unrounded)
- On a year-over-year basis, the total CPI is up 2.7 percent and the core CPI is up 2.9 percent as of June

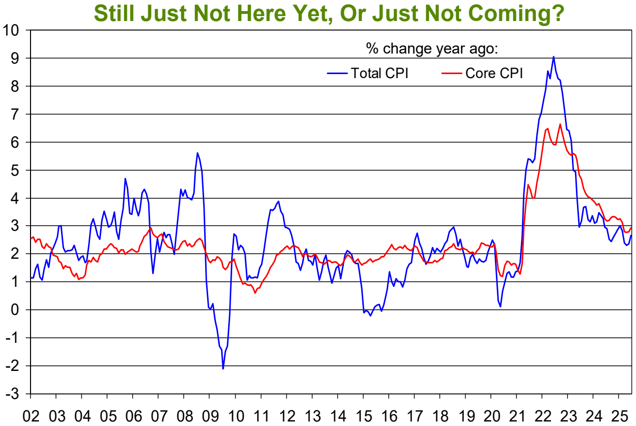
The total CPI rose by 0.3 percent, in line with the consensus forecast but ahead of the 0.2 percent increase our forecast anticipated, while the core CPI rose by 0.2 percent, matching our below-consensus forecast. As of June, the total CPI is up 2.7 percent year-on-year, and while that seems quite the pick-up from May – 2.4 percent – that is more a reflection of weaker base effects than a surge in underlying inflation pressures. To that point, the core CPI is up 2.9 percent year-on-year, up only modestly from the 2.8 percent year-on-year increase as of May. That the headline CPI rose a bit more than we anticipated – our forecast printed at 0.243 percent on an unrounded basis – largely owes to a slightly larger increase in gasoline prices and a larger increase in prices for medical care services than our forecast anticipated. On the whole, however, the June CPI data played out as we anticipated, with further, and more broadly based, pressure on core goods (non-food, non-energy) prices and further weakness in prices for discretionary services acting as somewhat of an offset. To be sure, tariff pass-through effects on goods prices remain, at least thus far, somewhat restrained and far from universal, but continue to argue that this will change in the months ahead. Another thing that will change, however, is that the offset that has been provided by sagging prices for discretionary services will fade and will do so somewhat rapidly once we're clear of the July data, which to some extent reflects what will be less favorable seasonal adjustment. As such, the monthly changes in the total and core CPI will be much less benign than has been the case over the past few months.

One puzzling element of the June data is that the BLS's measure of used car prices shows them falling by 0.7 percent in June, not only at odds with our forecast but also with data on used vehicle prices at the wholesale level. Granted, the CPI measure tends to lag the data on wholesale prices but given the extent to which the latter has been rising over recent months, we thought that by now the CPI data would have picked up on it. Used vehicle prices have been somewhat problematic in the CPI data since the pandemic, which is why we have stressed the BLS's series on core goods prices excluding prices for used vehicles as the more reliable gauge of underlying pressures on goods prices. That measure rose by 0.3 percent in June, and while that may not seem like much, it is nonetheless the largest monthly increase since March 2023 and leaves this measure up 0.4 percent year-on-year, the largest such increase since December 2023. The June data do suggest tariff pass-through effects in some categories, including household furnishings (up 1.0 percent, the largest monthly increase since January 2022), appliances (up 1.9 percent), toys (up 1.8 percent), and video & audio products (up 1.1 percent). These are not the first large monthly gains in these categories, and even if like-size increases are not going to be sustained, they will still leave prices well higher than had been the case. And, as noted above, we expect tariff pass-through effects to become more intense and more broadly based.

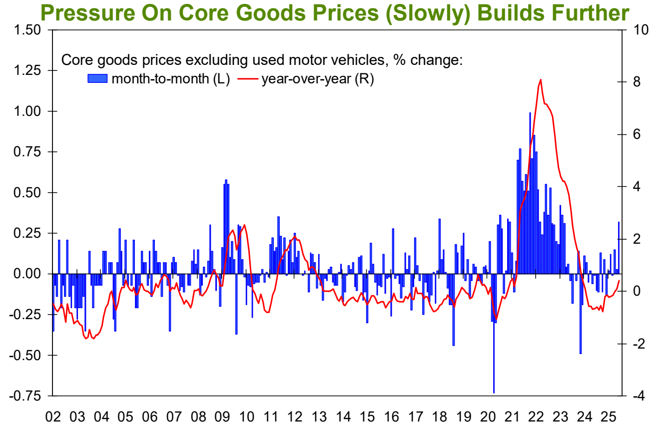
As we anticipated, falling prices for discretionary services, particularly travel-related services, acted as somewhat of a counter to rising prices for core goods. Prices for lodging away from home fell by 2.9 percent in June, with the sub-category that specifically includes hotel rates was down by 3.6 percent. Air fares fell by 0.1 percent, though this was a smaller decline than we anticipated. That said, core services prices rose by 0.3 percent in June, a larger increase than our forecast anticipated, reflecting larger increases in medical care services and personal services than we anticipated. While the June increase bumped the year-on-year increase in core services prices up to 3.6 percent from 3.5 percent in May, we think this is more than likely a break in, rather than the end of, the clear and strong downward trend in core services price inflation.

As we anticipated, food prices were up by 0.3 percent in June, leaving them up 3.0 percent year-on-year. Prices for food consumed away from home continue to rise at a much faster rate than the overall index of food prices. Seasonally adjusted gasoline prices were up by 1.0 percent, with the overall index of energy prices up by 0.9 percent. Electricity rates continued on a run of hefty monthly increases – up by 1.0 percent in June – reflecting higher demand and higher production costs, neither of which is likely to change soon.

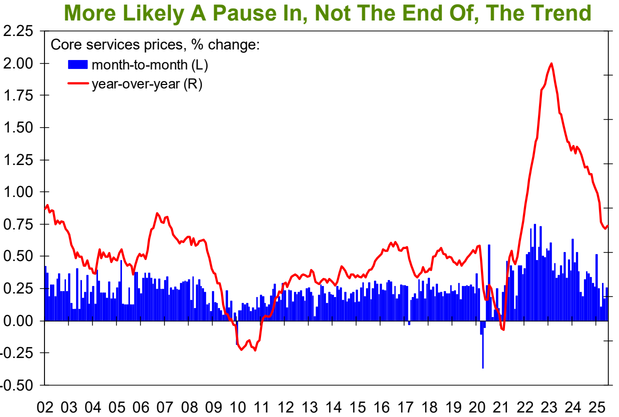
Still Just Not Here Yet, Or Just Not Coming?



Pressure On Core Goods Prices (Slowly) Builds Further



More Likely A Pause In, Not The End Of, The Trend



Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com