CPI Likely Slowed in June on Lower Gas Prices

Comerica Bank

But Re-Escalation of Iran Conflict Could Reverse the Progress in July

Bill Adams, Chief U.S. Economist

The Week Ahead

CPI inflation likely eased back below 4% in June as energy flows resumed through the Strait of Hormuz, helping U.S. gas and diesel prices reverse part of their spring surge. PPI inflation, which is more sensitive to energy prices than the CPI, likely slowed as well, moving back below 6%. However, core CPI and PPI likely improved less and probably continue to run above levels consistent with the Fed's 2% inflation target, which is measured by the PCE price index (PCE averages about a quarter percentage point below CPI over the long run). Last week's re-escalation of the Iran conflict pushed U.S. energy prices modestly higher, potentially obstructing further progress toward lower inflation in July.

Retail sales are forecast to rise solidly in the June report, with a good monthly increase in autos and parts offset by lower spending at gas stations (Good news, since it reflects lower prices). Industrial production likely rose solidly during the month, boosted by higher temperatures that increased electricity demand and utilities output. Manufacturing production likely rose moderately after no change in May. Housing starts and building permits likely rose in June, reversing May's declines; residential construction activity is down from a year earlier, a contrast with existing home sales.

Last Week in Review

The minutes of the Fed's June meeting removed explicit forward guidance about interest rates, mirroring the slimmed-down policy statement released immediately after the meeting. Without guidance, financial markets focused on the minutes' description of risks to the Fed's dual mandate of stable prices and maximum employment: "Upside risks to price stability remained elevated while downside risks to achieving maximum employment had moderated a bit." Along with "a few" FOMC members seeing "a case" for hiking rates in June, financial markets interpreted the minutes as further evidence that hikes are likely over the next 12 months.

The minutes project more ambiguity about the rate outlook than market pricing implies. They describe a Fed that is more data-dependent than outright hawkish. In a paragraph describing future options for interest-rate policy, "most" FOMC members mentioned both upside and downside inflation scenarios. Among members who laid out these scenarios, "almost all" thought hikes make sense if inflation runs hot, while they should "maintain or eventually lower" rates if it runs cool. Does that sound like a hiking bias, or "On the one hand, on the other hand?"

The Institute for Supply Management's Services PMI edged down to 54.0 in June from 54.5 in May, but still indicated solid growth among service-providing businesses. The Employment sub-index rebounded to 51.2 from 47.9, in line with Fifth Third Commercial Bank's above-consensus forecast and the first expansion reported since February. The Prices Paid Index still points to elevated inflation pressures, but receded to the least since February and matched its average in the second half of 2025.

Existing home sales fell 2.4% in June, but were still up 2.2% in the first half of 2026 from 2025's depressed level. The median sale price of an existing home rose 1.8% on the year in June, lagging the month's 3.5% increase of average hourly earnings—housing affordability is gradually improving.

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Date	Economic Release	Prior Release	Consensus Forecast	Comerica Forecast
7/13	Federal Budget Balance, Billions (Jun)	-$292.6	—	-$165
7/14	NFIB Small Business Optimism (Jun)	95.3	95.6	96.0
	CPI (Jun)	0.5% M/M	-0.1% M/M	-0.2% M/M
		4.2% Y/Y	3.8% Y/Y	3.8% Y/Y
	Core CPI (Jun)	0.2% M/M	0.2% M/M	0.2% M/M
		2.9% Y/Y	2.8% Y/Y	2.8% Y/Y
7/15	PPI Final Demand (Jun)	1.1% M/M	0.0% M/M	-0.5% M/M
		6.5% Y/Y	—	5.6% Y/Y
	Core PPI Less Foods and Energy (Jun)	0.4% M/M	0.3% M/M	-0.1% M/M
		4.9% Y/Y	—	4.7% Y/Y
	Core PPI Less Foods, Energy, and Trade Services (Jun)	0.8% M/M	0.4% M/M	0.2% M/M
		5.1% Y/Y	—	5.2% Y/Y
	Beige Book Economic Survey	N/A	N/A	N/A
7/16	Retail Sales (Jun Advance Release)	0.9% M/M	0.3% M/M	0.4% M/M
	Core Retail Sales Excluding Auto and Gas (Jun)	0.5% M/M	0.5% M/M	0.4% M/M
	Core Retail Sales Control Group (Jun)	0.7% M/M	0.4% M/M	0.5% M/M
	Initial Jobless Claims, 1,000s (Week of 7/11)	215	215	215
	Continuing Jobless Claims, 1,000s (Week of 7/4)	1,814	1,820	1,815
	NAHB Housing Market Index (Jul)	35	35	35
	Business Inventories (May)	0.5% M/M	0.3% M/M	0.3% M/M
	Pending Home Sales (Jun)	3.8% M/M	-0.3% M/M	-3.0% M/M
		2.1% Y/Y	—	2.0% Y/Y
7/17	Housing Starts, 1,000s (Jun)	1,177	1,318	1,350
		-15.4% M/M	12.8% M/M	14.7% M/M
	Building Permits, 1,000s (Jun Preliminary)	1,410	1,400	1,430
	Building Permits (Jun Preliminary)	-0.9% M/M	-0.7% M/M	1.4% M/M
	Industrial Production (Jun)	0.1% M/M	0.2% M/M	0.4% M/M
	Manufacturing Production (Jun)	0.0% M/M	0.2% M/M	0.2% M/M
	Capacity Utilization (Jun)	76.2%	76.2%	76.2%
	University of Michigan Consumer Sentiment (Jul Preliminary)	49.5	51.4	50.5
	U. Mich: Consumer Current Conditions (Jul Preliminary)	47.7	48.8	48.5
	U. Mich: Consumer Expectations (Jul Preliminary)	50.7	51.7	51.9
	U. Mich: Consumer 1-Year Inflation Expectations (Jul Preliminary)	4.6%	—	4.5%
	U. Mich: Consumer 5- to 10-Year Inflation Expectations (Jul Preliminary)	3.3%	3.3%	3.2%