Morgan Stanley | RESEARCH

UPDATE

July 14, 2026 01:24 PM GMT

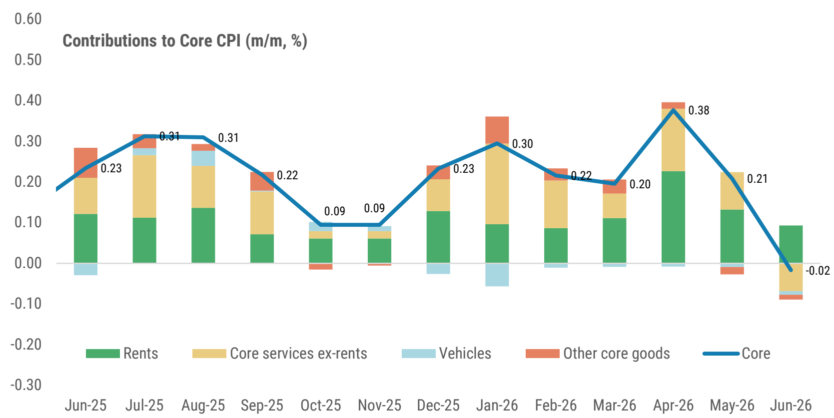
U.S. Data Pulse: CPI | North America

June CPI: Disinflation started

Key Takeaways

- CPI came in below our expectations, with core CPI falling 0.02% m/m and headline CPI falling 0.42% m/m.
- Data continue to suggest that tariff pass-through might be over.
- AI-related demand remained a source of strength in software and likely in recreation goods prices too.
- Core services softened more than expected, with downside surprises in hotels, medical services, and car insurance.
- Overall, the report is consistent with our view that inflation will continue to decelerate over the remainder of the year, allowing the Fed to remain on hold.

Exhibit 1: Core CPI and components



Source: BLS, Haver Analytics, Morgan Stanley Research

MORGAN STANLEY & CO. LLC

Michael T Gapen
Chief US Economist
Michael.Gapen@morganstanley.com +1 212 761-0571

Sam D Coffin
Economist
Sam.Coffin@morganstanley.com +1 212 761-4630

Diego Anzoategui
Economist
Diego.Anzoategui@morganstanley.com +1 212 761-8573

Arunima Sinha
Global Economist
Arunima.Sinha@morganstanley.com +1 212 761-4125

Heather Berger
Economist
Heather.Berger@morganstanley.com +1 212 761-2296

Lingdi Xu
Economist
Lingdi.Xu@morganstanley.com +1 212 761-2957

June CPI: Disinflation started

CPI came in below our expectations, with core prices falling 0.02% m/m in June (MS: +0.22%, consensus: +0.2%) and headline prices declining 0.42% m/m (MS: -0.19%). These readings put core CPI at 2.57% y/y and headline CPI at 3.46% y/y.

Using today's CPI data, we revised our June core PCE inflation forecast down to 0.20% m/m from 0.25% prior to the release, reflecting softer-than-expected core services ex-housing inflation. On a 3-, 6-, and 12-month annualized basis, core PCE is tracking at 3.13%, 3.88%, and 3.35%, respectively.

All in, this print is consistent with our view that inflation will decelerate the rest of the year allowing the Fed to remain on hold.

As highlighted in our CPI preview, three themes were key for this report: (1) whether tariff pass-through to goods prices continues, as in prior months; (2) the effects of lower oil prices; and (3) shelter inflation.

First, tariffs. The data continue to suggest that the pass-through may be largely complete. We estimate tariffs have lifted the overall price level by just over 62bp so far, broadly in line with the roughly 70bp implied by our models. More importantly, tariffs have not added meaningfully to core goods inflation since February 2026, based on our estimates.

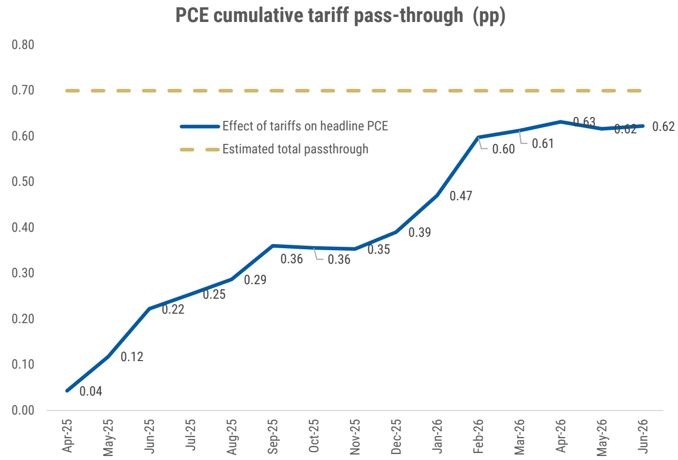
Second, oil prices. The recent decline in oil prices had a clear impact on June gasoline prices, contributing to a sharply negative monthly CPI energy reading. Absent further escalation in the Middle East, we would expect lower oil prices to begin feeding through to core inflation via softer airfares over the remainder of the summer. Lower oil prices should also help ease transportation and shipping costs, providing an additional tailwind to core goods disinflation.

Third, shelter. As expected, rent of primary residence and OER stepped down, confirming our view that the strength in May was likely driven by temporary survey noise. That said, the average of the two measures came in below our estimate of underlying trend inflation, suggesting some rebound risk next month.

Looking at the details, core goods prices fell for a second straight month. However, a new force is emerging that could keep core goods inflation above its historical trend: AI-related demand. Prices for computer software and accessories rose more than we expected. In addition, recreation goods were boosted by strength in "other video equipment," which may also reflect higher semiconductor costs.

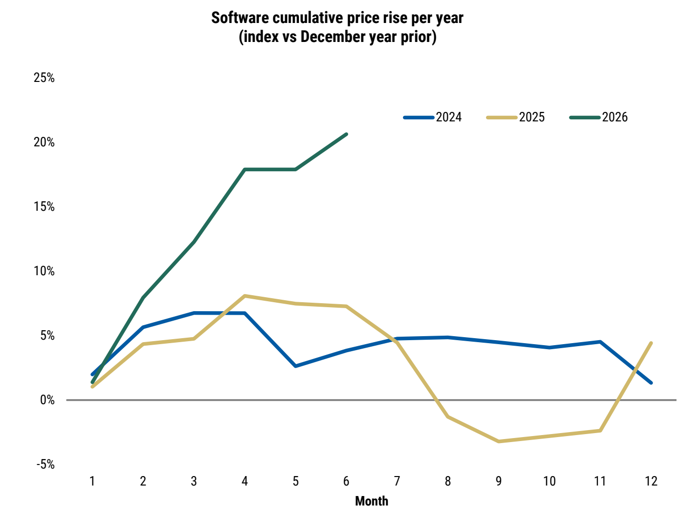
Core services inflation came in weaker than expected, reflecting normalization in both rents and airfares. The main surprise was lodging away from home, which posted a sharply negative reading—an unusual outcome given the ongoing World Cup and elevated hotel occupancy rates. Car insurance inflation was also softer than expected, recording a second consecutive strongly negative print.

Exhibit 2: Tariff passthrough might be at the finish line already.



Source: Morgan Stanley Research, BLS, BEA

Exhibit 3: Software prices continued to rise



Source: BLS, Morgan Stanley Research.

Exhibit 4: Inflation table

CPI % m/m	Feb-26 m/m	Mar-26 m/m	Apr-26 m/m	May-26 m/m	Jun-26 m/m
Headline	**0.27**	**0.87**	**0.64**	**0.47**	**-0.42**
Core	**0.22**	**0.20**	**0.38**	**0.21**	**-0.02**
Energy	0.63	10.87	3.81	3.88	-5.71
Food	0.39	-0.01	0.50	0.16	0.21
Core Goods	0.08	0.11	0.03	-0.11	-0.09
New Vehicles	0.04	0.10	-0.16	-0.26	-0.02
Used Vehicles	-0.38	-0.42	0.00	0.10	-0.23
Apparel	1.28	1.03	0.64	0.29	-0.55
Other goods (ex. alcohol, drugs, tobacco)	-0.07	0.18	-0.11	-0.24	0.10
Core Services	0.27	0.23	0.50	0.29	0.03
OER	0.22	0.28	0.53	0.30	0.24
Rent of Primary Residence	0.13	0.19	0.55	0.36	0.15
Hotels	0.96	0.24	2.44	0.42	-2.32
Medical Services	0.61	0.01	0.00	0.53	-0.12
Airfare	1.36	2.67	2.82	2.69	0.21
Core services ex-housing	0.35	0.18	0.45	0.27	-0.20
Headline CPI NSA Index	326.785	330.213	333.020	335.123	333.952

Source: BLS, Morgan Stanley Research.

PCE implications:

Incorporating inputs from CPI, we now forecast core PCE inflation increased 0.20%m/m in June (vs 0.25% before CPI). Headline PCE is forecasted at -0.05%m/m. Our forecast is consistent with core PCE running at a 3.35% on a y/y basis, and the six- and three-month paces at 3.88% and 3.13% respectively.

Exhibit 5: PCE forecasts

PCE m/m (%)	Mar-26	Apr-26	May-26	Jun-26 m/m	forecast y/y
Headline	**0.67**	**0.41**	**0.45**	**-0.049**	**3.724**
Food at Home	-0.14	0.49	0.06	0.190	
Energy	11.58	3.93	4.03	-5.896	
Core	**0.30**	**0.25**	**0.32**	**0.203**	**3.350**
Core Goods	0.21	0.30	-0.10	0.10	2.14
Core Services	0.32	0.23	0.46	0.24	3.74
Housing	0.27	0.52	0.30	0.22	
Transportation Services	*1.29*	*0.36*	*0.80*	*0.29*	
Healthcare Services	*0.35*	*0.03*	*0.38*	*0.15*	
Recreation Services	0.27	0.33	0.21	-0.02	
Food Services and Accomodations	0.24	0.53	0.30	-0.05	
Financial Services and Insurance	*0.58*	*-0.35*	*1.22*	*0.98*	
Communication Services	0.02	-0.20	1.55	-0.79	
Education Services	0.24	0.13	0.03	0.01	
Professional and Other Services	-0.27	0.37	0.79	0.37	
Personal Care and Clothing Services	-0.19	-1.16	0.70	0.87	
Social Services and Religious Activity	0.27	0.41	0.07	0.25	
Household Maintenance	1.68	1.35	-1.50	0.08	
Foreign Travel by U.S. Residents	*0.37*	*0.16*	*2.79*	*-0.15*	
Less: Expenditures in the U.S. by Nonresidents	*1.20*	*1.24*	*1.02*	*-0.47*	
Nonprofit Institutions Serving Households	*-0.39*	*1.20*	*-0.86*	*-0.02*	
Core Services ex-housing	**0.34**	**0.14**	**0.50**	**0.24**	**3.92**

Source: BEA, Morgan Stanley Research forecasts. The components highlighted in red might change after the release of PPI data.

The following table details the change in our forecast after the CPI print.

Exhibit 6: Change in PCE forecast

PCE m/m (%)	Jun-26 Initial forecast	Jun-26 post CPI	Contrib change initial vs post CPI
Headline	**0.02**	**-0.05**	**-0.07**
Food at Home		0.19	
Energy		-5.90	
Core	**0.25**	**0.20**	**-0.04**
Core Goods	**0.07**	**0.10**	**0.01**
Core Services	**0.31**	**0.24**	**-0.05**
Housing	0.24	0.22	0.00
Transportation Services		0.29	
Healthcare Services	0.15	0.15	0.00
Recreation Services		-0.02	
Food Services and Accomodations		-0.05	
Financial Services and Insurance	0.90	0.98	
Communication Services		-0.79	
Education Services		0.01	
Professional and Other Services		0.37	
Personal Care and Clothing Services		0.87	
Social Services and Religious Activity		0.25	
Household Maintenance		0.08	
Foreign Travel by U.S. Residents		-0.15	
Less: Expenditures in the U.S. by Nonresidents		-0.47	
Nonprofit Institutions Serving Households		-0.02	
Core Services ex-housing	**0.33**	**0.24**	**-0.04**

Source: BLS, BEA, Morgan Stanley Research. The components highlighted in red might change after the release of PPI data.

Disclosure Section

The information and opinions in Morgan Stanley Research were prepared by Morgan Stanley & Co. LLC, and/or Morgan Stanley C.T.V.M. S.A., and/or Morgan Stanley Mexico, Casa de Bolsa, S.A. de C.V., and/or Morgan Stanley Canada Limited. As used in this disclosure section, "Morgan Stanley" includes Morgan Stanley & Co. LLC, Morgan Stanley C.T.V.M. S.A., Morgan Stanley Mexico, Casa de Bolsa, S.A. de C.V., Morgan Stanley Canada Limited and their affiliates as necessary.

For important disclosures, stock price charts and equity rating histories regarding companies that are the subject of this report, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/eqr/disclosures/webapp/generalresearch, or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY, 10036 USA.

For valuation methodology and risks associated with any recommendation, rating or price target referenced in this research report, please contact the Client Support Team as follows: US/Canada +1 800 303-2495; Hong Kong +852 2848-5999; Latin America +1 718 754-5444 (U.S.); London +44 (0)20-7425-8169; Singapore +65 6834-6860; Sydney +61 (0)2-9770-1505; Tokyo +81 (0)3-6836-9000. Alternatively you may contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY 10036 USA.

Global Research Conflict Management Policy

Morgan Stanley Research has been published in accordance with our conflict management policy, which is available at www.morganstanley.com/institutional/research/conflictpolicies. A Portuguese version of the policy can be found at www.morganstanley.com.br

Important Disclosures

Morgan Stanley is not acting as a municipal advisor and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Morgan Stanley Research does not provide individually tailored investment advice. Morgan Stanley Research has been prepared without regard to the circumstances and objectives of those who receive it. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of an investment or strategy will depend on an investor's circumstances and objectives. The securities, instruments, or strategies discussed in Morgan Stanley Research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them. Morgan Stanley Research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments.

The fixed income research analysts, strategists or economists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues (which include fixed income trading and capital markets profitability or revenues), client feedback and competitive factors. Fixed Income Research analysts', strategists' or economists' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.

With the exception of information regarding Morgan Stanley, Morgan Stanley Research is based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Research change apart from when we intend to discontinue equity research coverage of a subject company. Facts and views presented in Morgan Stanley Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley may make investment decisions that are inconsistent with the recommendations or views in this report.

To our readers based in Taiwan or trading in Taiwan securities/instruments: Information on securities/instruments that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited ("MSTL"). Such information is for your reference only. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. Morgan Stanley Research may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Any non-customer reader within the scope of Article 7-1 of the Taiwan Stock Exchange Recommendation Regulations accessing and/or receiving Morgan Stanley Research is not permitted to provide Morgan Stanley Research to any third party (including but not limited to related parties, affiliated companies and any other third parties) or engage in any activities regarding Morgan Stanley Research which may create or give the appearance of creating a conflict of interest. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities/instruments. MSTL may not execute transactions for clients in these securities/instruments.

Morgan Stanley is not incorporated under PRC law and the research in relation to this report is conducted outside the PRC. Morgan Stanley Research does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. PRC investors shall have the relevant qualifications to invest in such securities and shall be responsible for obtaining all relevant approvals, licenses, verifications and/or registrations from the relevant governmental authorities themselves. Neither this report nor any part of it is intended as, or shall constitute, provision of any consultancy or advisory service of securities investment as defined under PRC law. Such information is provided for your reference only.

Morgan Stanley Research is disseminated in Brazil by Morgan Stanley C.T.V.M. S.A. located at Av. Brigadeiro Faria Lima, 3600, 6th floor, São Paulo - SP, Brazil; and is regulated by the Comissão de Valores Mobiliários; in Mexico by Morgan Stanley México, Casa de Bolsa, S.A. de C.V which is regulated by Comision Nacional Bancaria y de Valores. Paseo de los Tamarindos 90, Torre 1, Col. Bosques de las Lomas Floor 29, 05120 Mexico City; in Japan by Morgan Stanley MUFG Securities Co., Ltd. and, for Commodities related research reports only, Morgan Stanley Capital Group Japan Co., Ltd; in Hong Kong by Morgan Stanley Asia Limited (which accepts responsibility for its contents) and by Morgan Stanley Bank Asia Limited; in Singapore by Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore (which accepts legal responsibility for its contents and should be contacted with respect to any matters arising from, or in connection with, Morgan Stanley Research) and by Morgan Stanley Bank Asia Limited, Singapore Branch (Registration number T14FC0118J); in Australia to "wholesale clients" within the meaning of the Australian Corporations Act by Morgan Stanley Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents; in Australia to "wholesale clients" and "retail clients" within the meaning of the Australian Corporations Act by Morgan Stanley Wealth Management Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents; in Korea by Morgan Stanley & Co International plc, Seoul Branch; in India by Morgan Stanley India Company Private Limited having Corporate Identification No (CIN) U22990MH1998PTC115305, regulated by the Securities and Exchange Board of India ("SEBI") and holder of licenses as a Research Analyst (SEBI Registration No. INH000001105); Stock Broker (SEBI Stock Broker Registration No. INZ000244438), Merchant Banker (SEBI Registration No. INM000011203), and depository participant with National Securities Depository Limited (SEBI Registration No. IN-DP-NSDL-567-2021) having registered office at Altimus, Level 39 & 40, Pandurang Budhkar Marg, Worli, Mumbai 400018, India; Telephone no. +91-22-61181000; Compliance Officer Details: Mr. Tejarshi Hardas, Tel. No.: +91-22-61181000 or Email: tejarshi.hardas@morganstanley.com; Grievance officer details: Mr. Tejarshi