All Signal, No Noise

MARKET ANALYSIS

U.S. CPI Preview: June 2026

MNI View: Monthly Moderation But Still Too High

Jun 8, 2026 – By Chris Harrison

SUMMARY

- Monthly inflation is expected to moderate to a still elevated pace in May, with MNI unrounded consensus pointing to 0.51% M/M for headline CPI and 0.23% M/M for core CPI.
- It should see headline CPI jump further to 4.2% Y/Y with a risk of 4.3% (either strongest since Apr 2023) whilst core CPI would see a more modest acceleration to 2.8-2.9% Y/Y (strongest since Sep 2025).
- Within the monthly drivers, energy prices should see a similar if not slightly stronger increase than in April but with food and core inflation moderating from a strong April.
- For core, expected upside drivers to M/M inflation are relatively limited with highlights being used cars and medical items. Largest downside drivers are rents – after an artificial boost in April – and lodging.
- Supply chain pressures remain unusually elevated per the NY Fed's GSCPI although the computer software category – notable for its feedthrough to core PCE rather than CPI – may have seen a more modest increase after an extremely strong run in recent months.
- Core PCE is tentatively seen at a firmer 0.32% M/M (range 0.24-0.37) in May after 0.24% M/M in April. It would see a return of the recent, and rare, trend of core PCE inflation running above core CPI after April's rent strength boosted core CPI. Indeed, core PCE would accelerate to 3.4% Y/Y for a significant wedge.
- We approach this CPI report after a significant further hawkish adjustment on Friday's nonfarm payrolls report which has seen a further dissipation of downside risks to the labor side of the dual mandate.
- Inflation upside risks are instead firmly in focus amidst ongoing Middle East tensions. At typing, there is 27.5bp of cumulative hikes priced to end-2026 (off Monday's earlier fresh hawkish extremes of 31bp) building to 43bp of hikes to mid-2027 for roughly the peak of the temporary hiking cycle.
- The FOMC is now in the media blackout ahead of the Jun 16-17 meeting. That's unlikely to provide a communications issue unless it's a particularly strong CPI report, with an added complication that this will be the first meeting with Kevin Warsh as Chair.

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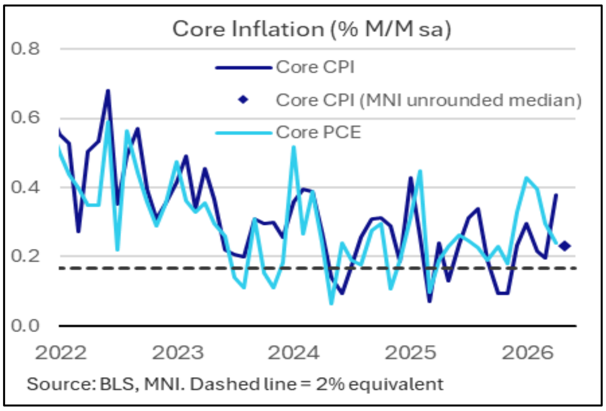
Another Strong Energy Print But Some Moderation Elsewhere

	Apr	**May *MNI consensus****
Core	0.38%	Median 0.23%
Headline	0.64%	Median 0.51%
Core Y/Y	2.75%	Median 2.9%, Av 2.86%
Headline Y/Y	3.81%	Median 4.2%, Av 4.23%

(*M/M only from unrounded analyst estimates, Y/Y more broadly)



Headline CPI inflation is expected to see another strong increase in May even if it doesn't match the two previous monthly increases, with a median unrounded analyst estimate of 0.51% M/M after the 0.64% realized in April and 0.87% M/M in March. Core CPI is also expected to moderate to 0.23% M/M after a particularly strong 0.38% M/M in April although the latter was artificially boosted by about 10bps from a delayed impact on rental inflation from the government shutdown. Y/Y inflation meanwhile should accurate with headline CPI jumping to 4.2% Y/Y with risk of a 4.3% print after 3.81% Y/Y in April. Highlighting the recent acceleration, it had seen two months at 2.4% in Jan-Feb prior to the first US-Israel strikes on Iran on Feb 28. Core CPI meanwhile could be a close call between a 2.8-2.9% Y/Y print for a far more modest but still non-trivial acceleration after the 2.75% Y/Y in April, 2.60% in March and an average 2.5% in Jan-Feb.

Early core PCE estimates for May have a median of 0.32% M/M (range 0.24-0.37%) in the relatively small pre-CPI sample we have seen so far, accelerating from 0.24% M/M in April. It would see a return of the recent, and rare, trend of core PCE inflation running above core CPI after April's rent strength boosted core CPI where it has a much larger weight.

Analyst Expectations Of Key Sequential Drivers: Core Upside Limited To Used Cars & Medical

Energy inflation should see a similarly strong increase as in April but food might moderate after a strong April:

- **Energy** (small +ve to neutral): Energy prices are expected to show another strong increase of ~4.0% M/M (range 3.4-4.7%) after 3.8% M/M in April following the booming 10.9% M/M in March.
- **Food** (-ve): Expected to moderate to 0.3% M/M after a surprisingly strong 0.5% M/M in April, which had in turn been driven by the food at home category jumping 0.68% M/M (highest since Aug 2022) in a potential sign of passthrough from higher transportation and fertilizer costs.

For core, upside drivers to M/M inflation compared to April are relatively limited with highlights being used cars and medical items. Largest downside drivers are rents – after an artificial boost in April – and lodging away from home.

- **Used cars** (+ve): Expected to firm after a surprisingly soft April, with an average 0.2% M/M in May but a reasonably wide range of -0.2% to 0.8% M/M. Feedthrough from prior strength in the Manheim used vehicle series has been slow.
- **Medical items** (+ve): Medical care commodities are on average seen flat after slipping -0.4% M/M in April whilst services could have firmed a little after a flat April.
- **Rents** (large -ve): OER and primary rent inflation should drop back to typical monthly rates in May after a delayed impact from last year's government shutdown saw a sharp acceleration in April. OER on average seen rising 0.24% M/M in May (range 0.22-0.26) after 0.53% in Apr and 0.28% in Mar, primary rents seen rising 0.22% M/M (range 0.20-0.26) after 0.55% in Apr and 0.19% in Mar. Recall that because the sample from 6 months earlier wasn't available in April, the BLS looked at the 12-month change for inflation in the sample and used the 6th root of that change (as opposed to the 12th root).
- **Lodging** (large -ve): Seen moderating notably after being easily the largest surprise in the April report, on average seen riding 0.6% M/M (median 0.1) after a much stronger than expected 2.4% M/M in April. It's not a uniform view, with an analyst range of -0.6% to 2.5% M/M.
- **Airfares** (-ve): On average seen rising 2.5% M/M (median 2.0) after the 2.8% M/M in April had somewhat underwhelmed strong expectations as a sharp increase in jet fuel prices continues to feed through. The analyst range of 1.3-4.7% is on the narrower side for this volatile category that doesn't feed into PCE.
- **Apparel** (-ve): On average seen rising 0.3% M/M after a surprisingly robust 0.6% M/M in April considering it had already seen two very strong increases of 1.0% in March and 1.3% in Feb in what was its strongest single month since 2018.

[A quick reminder that the below table shows median/mean figures across all estimates, hence the core CPI median of 0.27% M/M vs the 0.23% if only taking unrounded estimates per the separate table shown later.]

Summary of Detailed Analyst May 2026 Inflation Expectations

mni	Headline NSA Index	NSA Y/Y	Core NSA Y/Y	Headline SA M/M	Core SA M/M	Supercore M/M	Core goods M/M	used cars M/M	apparel M/M	medical M/M	Core services M/M	OER M/M	rents M/M	lodging M/M	airfares M/M	auto ins. M/M	medical M/M	Food M/M	Energy M/M	gasoline M/M
April	333.020	3.81	2.75	0.64	0.38	0.45	0.03	0.0	0.6	-0.4	0.50	0.53	0.55	2.4	2.8	0.1	0.0	0.5	3.8	5.4
May (median)	335.143	4.23	2.9	0.50	0.27	0.26	0.10	0.2	0.3	0.0	0.27	0.24	0.22	0.1	2.0	0.1	0.2	0.3	3.9	7.4
May (mean)	335.154	4.23	2.86	0.51	0.26	0.29	0.11	0.2	0.3	0.0	0.27	0.24	0.22	0.6	2.5	0.1	0.2	0.3	3.9	6.9
Bbg consensus	335.143	4.2	2.9	0.5	0.3															
Goldman Sachs		4.17	2.79	0.45	0.17			0.0				0.22	0.22	0.2	2.0	-0.1		0.3	4.2	
UBS	335.049	4.2	2.8	0.46	0.17		0.08	-0.2	0.4	0.0	0.20	0.23	0.23	-0.6	1.3		0.2	0.3	3.7	
Nomura	334.962	4.20	2.8	0.45	0.18	0.25	0.03	0.2	0.2	-0.2	0.23	0.22	0.21	-0.1	2.9	0.2	0.1	0.4	3.4	7.4
BofA		4.20	2.8	0.46	0.20		0.05													
Deutsche Bank		4.29	2.87	0.51	0.22															
SEB		4.2	2.9	0.5	0.2															
Citi	335.201	4.3	2.8	0.5	0.22		0.12	0.8		0.5		0.24	0.22		2.0					
Morgan Stanley	335.250	4.29	2.8	0.56	0.22	0.25	0.14	0.5	0.2		0.25	0.25	0.22	0.5	1.5	-0.1	0.4	0.3	4.7	
TD Securities	334.986	4.2	2.8	0.48	0.23	0.26	0.13	-0.2	0.5		0.26	0.26	0.26	-0.3	4.7			0.2	3.9	
NatWest	335.143	4.3	2.9	0.49	0.26	0.4	0.10	0.3	0.2		0.30	0.22	0.23	2.4	2.0	0.2		0.3	3.3	
HSBC	335.345	4.32	2.9	0.6	0.26															
JP Morgan	335.280	4.30	2.9	0.58	0.27		0.3	0.7	0.5	0.0	0.3	0.25	0.20	-0.1			0.3	0.4	4.2	
Barclays	335.250	4.29	2.9	0.54	0.28		0.1	-0.2	0.3	-0.1	0.34	0.25	0.23	2.5	3.5	0.1	0.2	0.3	3.9	7.4
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Wells Fargo	335.090	4.2	2.8	0.52	0.30		0.09				0.27				3.0			0.3	4.2	

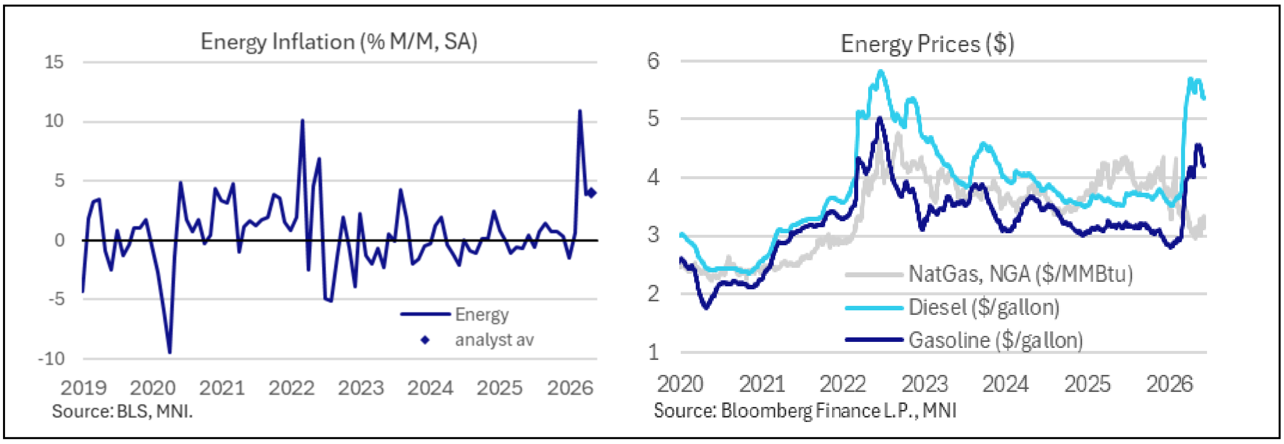
Source: Analyst previews, Bloomberg Finance L.P., MNI

Sorted on core CPI from smallest to largest M/M. Supercore is core services excluding primary rents and owner equivalent rents

This month's report is again going to be seen in the light of the feedthrough from the continued large increases in energy prices since the first US-Israel strikes on Iran on Feb 28. Food prices were one area of notable strength in April, with their sensitivity to higher transportation and fertilizer costs, although it's a naturally volatile component.

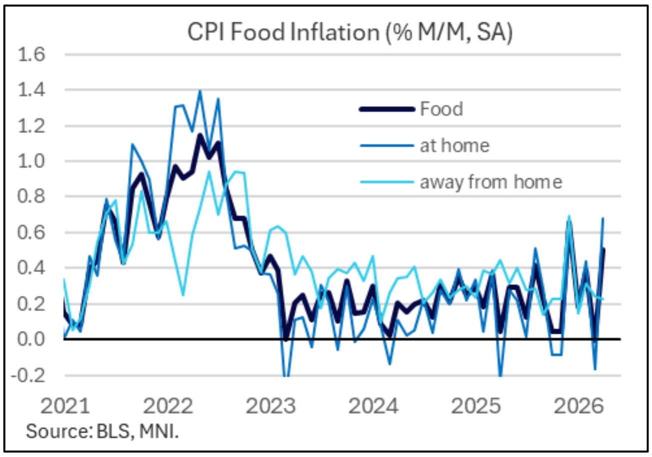
Another Strong Increase In Energy Prices In May, Possibly Some Relief In June

Gasoline pump prices pushed higher again in May, averaging $4.50/gallon in daily AAA data for a 9% M/M increase after 11% in April and the particularly strong 27% jump in March. Analysts see this translating to closer to a 7% increase in the seasonally adjusted CPI gasoline series. There are some offsets to consider this month, with diesel (1.1%) and natural gas (0.6%) prices seeing smaller monthly increases even if the latter can be harder to estimate its feedthrough to consumer prices. Some relief looks to be in store for June, with gasoline currently at $4.19/gallon even if that compares to sub-$3 pump prices before the first US and Israel strikes on Iran on Feb 28.



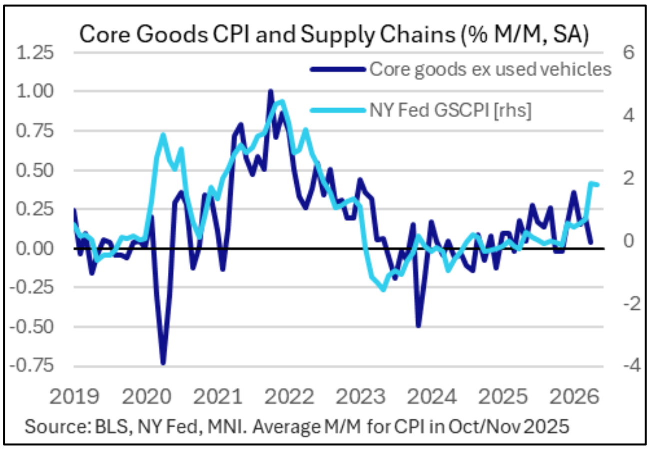
Food Prices Seen Moderating After April Bounce

Food inflation is seen at 0.3% M/M in May, a fairly typical expected monthly rate (close to a recent longer-term trend), after particular volatility in recent months with a rare flat month in March before it bounced 0.5% M/M in April. These swings have been driven by food away from home (0.68% M/M in April after -0.16% in March and 0.44% in Feb) whilst food away from home (0.23% M/M after 0.24% and 0.32%) broadly reflects the trend moderation seen in wage growth. The latter can also be a gauge of discretionary demand amidst a sharp rise in travel costs, although last week's nonfarm payrolls report didn't see evidence of a cooling in demand on that front with food & drinking places one of the key areas of hiring earlier in the month.



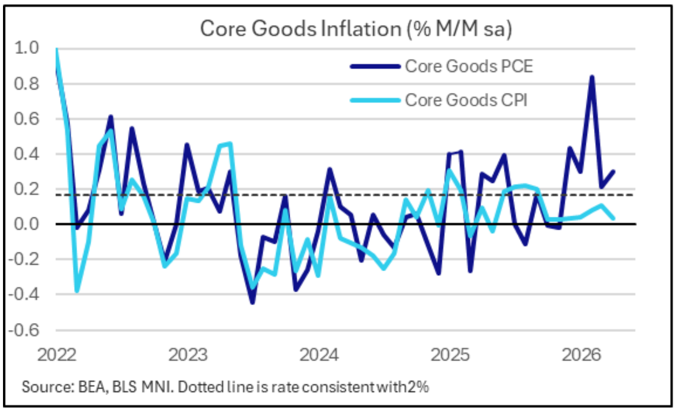
Supply Chain Pressures Hold Recent Strong Increase

Supply chain pressures continue to point to upside inflation risks according to the NY Fed's GSCPI, not that it was reflected in April's CPI release when core goods inflation underwhelmed (0.03% M/M or 0.04% ex-used cars). The GSCPI sat at 1.8 standard deviations above its historical average (highest since mid-2022) for a second consecutive month. Core goods inflation was running closer to 0.3-0.4% M/M the last time the GSCPI index was at these levels.

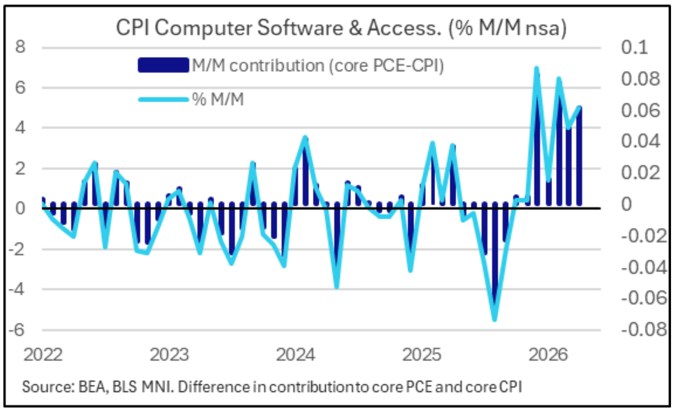


Semiconductor Shortages Remain But Software Inflation Could Have Slowed (More A Core PCE Story)

Within the details, computer software & accessories remains a notable small category to watch after an extremely strong run owing to semiconductor and other tech-related shortages. It's still hard to get a sense of what's expected here although we judge it's for a softer increase than the 5.0% M/M in April (for a cumulative 26% increase between Nov-Apr). The Adobe DPI saw another strong increase but notably less so than the prior month, Citi write "We expect a much more modest increase this month and for this component to move sideways to lower later in the year" and JPM write "We expect that price increases continued there. However, price histories for some of the bestselling models on Amazon.com suggest that the rate of increase slowed substantially in comparison to earlier months." This category needs less of an introduction now but remember that it has a weight of only 0.04% in core CPI vs 1.2% for core PCE, having added 0.06pp to core PCE alone in April.



Source: BEA, BLS MNI. Dotted line is rate consistent with 2%



Source: BEA, BLS MNI. Difference in contribution to core PCE and core CPI

Fed Rate Path Touches Fresh Hawkish Extremes Of Iran War With Hike Fully Priced For 2026

The labor market in recent months showing signs of stability and more recently strength has seen the Fed's focus increasingly on upside inflation risks to the dual mandate, with multiple FOMC members calling the previous implicit easing bias into question. That theme received a further boost with the latest nonfarm payrolls report on Friday, fully pricing a 25bp hike by year-end. Combined with Middle East de-escalation struggling to be maintained for long, including Israel and Iran recently exchanging strikes, crude oil futures have remained elevated and kept downward pressure on US rates. At typing on Monday, there is 27.5bp of cumulative hikes priced to end-2026 (off Monday's earlier fresh hawkish extremes for the conflict of 31bp) and 43bp of hikes to mid-2027. Hikes are expected to be somewhat temporary, with the mid-2027 point seen to be around the peak for the hiking cycle. SOFR implied yields are currently at 4.09% in the M7 before 4.015% with the Z7 and 3.93% with the Z8 vs an effective fed funds rate currently at 3.62%.

The FOMC is now in the media blackout ahead of the Jun 16-17 meeting. That's unlikely to provide a communications issue unless it's a particularly strong CPI report, with an added complication that this will be the first meeting with Kevin Warsh as Chair.

FOMC-dated Fed Funds futures implied rates

Meeting	Latest			pre NFP (Jun 5)			*chg in rate*	pre FOMC decision (Apr 29)			*chg in rate*
	%	step (bp)	cum. (bp)	%	step (bp)	cum. (bp)	*bp*	%	step (bp)	cum. (bp)	*bp*
Effective	3.62			3.62				3.64			
Jun'26	3.63	-1.6	0.5	3.62	0	0.1	*0.4*	3.64	0	0	*-1.6*
Jul'26	3.66	3.3	3.8	3.64	2	1.8	*2.0*	3.63	-1	-1	*3.0*
Sep'26	3.75	9.0	12.8	3.69	5	6.5	*6.3*	3.63	0	-2	*12.3*
Oct'26	3.80	4.9	17.7	3.71	3	9.3	*8.4*	3.62	0	-2	*17.5*
Dec'26	3.89	9.6	27.3	3.78	7	16.1	*11.2*	3.63	1	-1	*26.1*
Jan'27	3.94	5.0	32.3	3.81	3	19.3	*13.0*	3.66	3	2	*28.5*
Mar'27	4.01	7.1	39.4	3.87	6	24.9	*14.5*	3.69	3	5	*32.8*
Apr'27	4.05	3.4	42.8	3.90	3	28.2	*14.6*	3.71	2	7	*34.1*
Jun'27	4.05	0.6	43.4	3.91	1	28.9	*14.5*	3.70	-1	6	*35.7*

Source: Bloomberg Finance L.P., MNI. Assuming same EFFR-target lower bound spread from latest fix going ahead

Summary Of Analyst Estimates

Overview Of Unrounded Core CPI Analyst Estimates

mni	Headline NSA Index	NSA Y/Y	Core NSA Y/Y	Headline SA M/M	Core SA M/M	Core PCE SA M/M
April	333.020	3.81	2.75	0.64	0.38	0.24
May (median)	335.143	4.25	2.8	0.51	0.23	0.32
Bbg consensus	335.143	4.2	2.9	0.5	0.3	
Goldman Sachs		4.17	2.79	0.45	0.17	0.27
UBS	335.049	4.23	2.82	0.46	0.17	0.32
Nomura	334.962	4.20	2.80	0.45	0.18	0.33
BofA		4.2	2.8	0.46	0.20	
Citi	335.201	4.27	2.8	0.5	0.22	0.37
Deutsche Bank		4.29	2.87	0.51	0.22	0.33
Morgan Stanley	335.250	4.29	2.8	0.56	0.22	0.24
TD Securities	334.986	4.21	2.8	0.48	0.23	
HSBC	335.345	4.32	2.9	0.6	0.26	
NatWest	335.143	4.25	2.9	0.49	0.26	
JP Morgan	335.280	4.30	2.9	0.58	0.27	
Barclays	335.250	4.29	2.9	0.54	0.28	0.28
BNP Paribas	335.137	4.25	2.9	0.6	0.29	
Wells Fargo	335.090	4.24	2.8	0.52	0.30	

Source: Analyst previews, Bloomberg Finance L.P., MNI
Core M/M figures calculated from SA index for BNP and HSBC

Summary of Detailed Analyst May 2026 Inflation Expectations

mni	Headline NSA Index	NSA Y/Y	Core NSA Y/Y	Headline SA M/M	Core SA M/M	Supercore M/M	Core goods M/M	used cars M/M	apparel M/M	medical M/M	Core services M/M	OER M/M	rents M/M	lodging M/M	airfares M/M	auto ins. M/M	medical M/M	Food M/M	Energy M/M	gasoline M/M
April	333.020	3.81	2.75	0.64	0.38	0.45	0.03	0.0	0.6	-0.4	0.50	0.53	0.55	2.4	2.8	0.1	0.0	0.5	3.8	5.4
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Source: Analyst previews, Bloomberg Finance L.P., MNI
Sorted on core CPI from smallest to largest M/M. Supercore is core services excluding primary rents and owner equivalent rents

Analyst Previews for CPI Report

(In order of weakest to strongest M/M core inflation forecasts, shown on SA basis for M/M and NSA basis for Y/Y unless stated otherwise):

Scotiabank: <u>Core CPI seen at 0.3% M/M and 2.9% Y/Y in May, headline at 0.4% M/M and 4.1% Y/Y</u>

- “It’s normally a seasonal up-month for unadjusted prices and higher gasoline prices should contribute to this along with food. Seasonal adjustment factors have been haircutting seasonally unadjusted price changes more so in recent years than previously which could have a dampening effect.”
- “Rent inflation continues to ebb. That could mean that the large spikes in primary rent and owners’ equivalent rent during April are unlikely to repeat and could well swing around the other way.”
- “A key factor that makes me nervous about this report is the tango going on between core services and core goods inflation. It’s possible that short-term effects of tariffs on goods prices are ebbing, although longer-wave supply chain effects of protectionist US policies remain at a highly nascent stage of evolution. Core services prices (ex-energy and housing services), however, have been skyrocketing. An area where further service inflation is likely is through domestic airfare, but much of the rest of that portion of the basket is difficult to estimate.”

SocGen: <u>Core CPI seen at 0.3% M/M and 2.9% Y/Y in May, headline at 0.5% M/M and 4.2% Y/Y</u>

- “May headline CPI will get another push from higher retail gasoline prices over the month, and core CPI will also be relatively firm as continued rising business price pressures likely means that core goods inflation remained firm.”
- “Rising retail gasoline prices due to higher oil prices will still have been a factor in May. On average retail gasoline prices were at about $4.50 per gallon in May, up from around $4.10 in April, and this will in itself have likely pushed up headline CPI by 0.27ppt over the month. Furthermore, other oil-derived fuels like diesel and kerosine also became more expensive again throughout May, which should direct impact the transportation services component of core CPI in May; in April this component increased 0.3% m/m so a higher increase for May is to be expected.”
- “[A]s the technical consequences of the shutdown adjustments on the shelter component of CPI now no longer impact the data, CPI Shelter should be growing more in line with what’s implied by market rent trends, so probably the monthly shelter inflation print should have eased to around 0.2%-0.3% m/m.”
- “Outside of these direct energy price impacts, the May ISM business surveys made clear that price pressures for businesses not only remained elevated in May but they accelerated even further to historically worrisome levels. And with supply chains pressures becoming more prominent this could not only add to inflationary pressures going forward, but in May consumer prices likely already were impacted by these trends given this has been ongoing since the start of the year.”

Barclays: <u>Core CPI seen at 0.28% M/M and 2.9% Y/Y in May, headline at 0.5% M/M and 4.3% Y/Y</u>

- About 10bp of monthly core CPI is seen coming “from accommodation and airline services components, with the latter pressured by the sharp runup in jet fuel prices.”
- “With April's double dose of rent inflation behind us, we expect run-rates for rent and OER CPI to revert to their prior pace of gradual deceleration.”
- <u>Core PCE tracking</u>: “0.28% m/m (3.3% y/y) increase in core PCE price inflation, with core goods components continuing to run faster than their CPI counterparts due to differences in category weights, and some lift from the financial services PCE, tracking the recovery in equity markets in April-May.”
- “Although risks around our baseline are shifting, we continue to expect the FOMC to remain on hold through the remainder of 2026, with core PCE still running above target through year-end and the Fed looking through Iran-related price shocks. Under our assumption that the Strait of Hormuz disruption is resolved within the next few weeks, we expect oil prices to move lower in early 2027, providing a disinflationary impulse to headline inflation. We expect underlying disinflationary forces to remain in place next year, with labor market tightening insufficient to generate a material pickup in wages, continued moderation in shelter, and tariff-related inflation fading. Under those conditions, we see scope for a 25bp cut in March 2027.”

JPMorgan: <u>Core CPI seen at 0.27% M/M and 2.9% Y/Y in May, headline at 0.58% M/M and 4.3% Y/Y</u>

- “[W]e look for an acceleration in core good prices, led by a rise in used vehicles, whose prices have been falling for a number of months despite a rise in Manheim’s wholesale price measure. Used vehicles prices were flat in April, and we think that transitions to price increases in May. For new cars, we expect no change in prices, based on average transaction prices and incentives reported by Truecar."

- "For apparel, prices have increased sharply since the beginning of the year, likely reflecting seasonal re-stocking that incorporates tariff effects. Price increases to date are likely already large enough to capture the producer cost increase from tariffs, and we look for some further deceleration in May."
- "Software and accessories have little weight in the core CPI, but more than 30x as much weight in the core PCE, and their prices have increased sharply because of the inclusion of USB and SD memory sticks. We expect that price increases continued there. However, price histories for some of the bestselling models on Amazon.com suggest that the rate of increase slowed substantially in comparison to earlier months."
- "Turning to core services, recall that OER and rent were boosted in April by the inclusion of data that were not collected during the government shutdown in October. Price increases for those two categories should revert toward earlier earlier trends, which have been quite soft so far this year. We expect 0.25%m/m for OER and 0.20% for rent, similar to the 1Q averages. For travel-related categories, industry data from Smith Travel Research point to a small drop in lodging prices, while Google Flights pricing indicates a small decline in air transportation costs. The latter is somewhat surprising given the surge in jet fuel prices, so risks are tilted to the upside."
- "For food we look for prices to rise 0.4%m/m, a tenth faster than the average over the last six months. Although fertilizer and energy prices have risen since the start of the Middle East conflict, farm prices received in April were still down 1.8%oya, while PPI consumer foods were up 2.1%, undershooting the 3.0%oya increase in the cost of food at home."

NWM: <u>Core CPI seen at 0.255% M/M and 2.9% Y/Y in May, headline at 0.49% M/M and 4.25% Y/Y</u>

- "On the core goods side, we expect vehicle prices were little changed with a modest increase in used vehicle prices offsetting sustained weakness in new vehicle prices. Retail used vehicle prices have still not picked up the strength seen in wholesale used car values since the start of the year; it's possible that the transmittance is being slowed down by consumer caution on the demand side amidst ample inventories. Still the risk for this component at least in the near term remains to the upside."
- "Meanwhile, excluding vehicles, core goods prices likely advanced by another 0.1%, propped up by some strength in prices for apparel and communication commodities."
- "On the services side, we expect rent costs resumed their downward slide with the May report, after a one-off, above-trend 2025 government shutdown driven spike of 0.5% in April. In the other direction, firm prices for airfares; lodging away from home and cars and truck rental leasing likely boosted other core services prices."
- "With jet fuel and gasoline prices rising, the cost of travel has risen with some passthrough to the consumer, which likely continued into May. We think the next few reports will be more interesting from that perspective as we enter the time of the year when airlines and hotel chains tend to offer discounted prices for the summer season travel."

TD Securities: <u>Core CPI seen at 0.23% M/M and 2.8% Y/Y in May, headline at 0.48% M/M and 4.2% Y/Y</u>

- "We look for core CPI inflation to take a breather in May following the shelter-led jump that saw the series surge to 0.38% m/m in April. Services price normalization should more than offset a small pickup in goods inflation, despite our expectation for airfares to gain additional strength."
- "Energy prices remained firm owing to the passthrough from still high oil prices."
- "The ongoing oil-price shock and lingering tariff passthrough should result in the core segment nearing its peak for the year at 3.0% y/y in June—though the ongoing Iran conflict provides upside risks to our forecast. While we project m/m normalization in the final quarter of the year, core inflation is unlikely to achieve meaningful progress on a y/y basis in 2026."

Wells Fargo: <u>Core CPI seen at 0.23% M/M and 2.8% Y/Y in May, headline at 0.52% M/M and 4.2% Y/Y</u>

- "Core good prices look set for a modest pickup in May thanks to a lift from used autos, as the CPI index has yet to reflect the pickup in wholesale auction prices since the start of the year. Inflation among other goods, however, is likely to have eased slightly as tariff-related price hikes ebb and the Iran conflict's second-round effects on costs for transportation, packaging, etc. are slow to filter into retail prices."
- "One area of the core in which the impact of the Iran conflict should be readily apparent though is airline fares. The surge in jet fuel costs since early March along with the bankruptcy of Spirit Airline's set the stage for another solid rise (we've penciled in an increase of 3%)."

- "But we do not expect to see a broad re-acceleration in price growth across remaining services. Primary shelter looks to set to revert to its 0.2-0.3% monthly pace following April's "catch up" reading that was a lingering quirk of the government not collecting data last October during the shutdown."
- "Meantime, a rebound in medical care is likely to be mostly offset by weakness in motor vehicle insurance and personal services, keeping the six-month pace of core services ex-shelter and travel unchanged at 2.5% and in line with its pre-COVID pace."

Citi: Core CPI seen at 0.22% M/M and 2.8% Y/Y in May, headline at 0.5% M/M and 4.3% Y/Y

- "We expect a 0.22%MoM increase in core CPI in May, with various components now "clean" of measurement issues caused by the government shutdown last October."
- "Headline CPI will again be boosted by higher average energy prices in May, with a 0.5%MoM increase but risk of a stronger 0.6% reading."
- "Details of core CPI in May should be largely benign. We are penciling in a modest 0.12% increase in core goods prices, with falling apparel and new car prices. We continue to see risks of stronger used car prices in CPI given rising wholesale prices, we pencil in a 0.8% increase in May."
- "Medical goods prices have shown some residual strength in May in the past, with a 0.5% increase in our forecast, but the most important component of goods prices may be computer software and accessories, which receives a much larger weight in PCE inflation. We expect a much more modest increase this month and for this component to move sideways to lower later in the year."
- "Shelter inflation should resume its slowing trend in May, with a 0.22% increase in primary rents and 0.24% increase in OER in our forecast. We would not be surprised by even softer increases (below 0.20%) in coming months."
- "Airfares remain a substantial source of uncertainty as a price that is particularly sensitive to higher energy costs. Unlike when jet fuel prices rose in 2022, there has not been a substantial increase across various measures of airfares, likely reflecting a softer demand environment. Upside risks to airfares remain the longer energy prices remain high, but we expect a modest 2%MoM increase in May. Notably, there may be upside risks in May from the closure of a low-cost airline, which may mean fewer discount options in the CPI pricing sample."
- Core PCE tracking: 0.37% M/M increase in core PCE in May, "with a substantial boost from rebounding portfolio management fees".

Deutsche Bank: Core CPI seen at 0.22% M/M and 2.8% Y/Y in May, headline at 0.56% M/M and 4.3% Y/Y

- "[W]e are looking for continued tariff-related price pressures in apparel as well as strength in information technology commodities, while lagged wholesale prices could boost used car prices."
- "On the services side, rents should normalize after payback in April from last October's government shutdown. We will also be looking for the extent of any bleed-through from higher gasoline prices into core, particularly from airline fares and delivery services."
- Core PCE tracking: 0.33% M/M increase in core PCE in May, "which would increase year-over-year a tenth to 3.39%. Thursday's PPI will help to refine this projection – particularly, the health care services, domestic airfares and portfolio management."

Morgan Stanley: Core CPI seen at 0.22% M/M and 2.8% Y/Y in May, headline at 0.56% M/M and 4.3% Y/Y

- The core profile is "driven by deceleration in core services alongside still-positive core goods inflation".
- "The step-down in core is largely explained by easing shelter inflation. The April strength reflected a one-off payback from shutdown-related noise, and shelter should move back closer to its underlying trend starting in May."
- "We also expect normalization in core services ex-housing, as part of April's firming likely reflected volatility in household operations CPI, a particularly noisy component."
- "Core goods inflation remains positive – tariff pass-through is not yet complete, though its impact is gradually fading."
- "A key upside risk continues to be stronger oil pass-through, lifting more core components than we anticipate."
- "We think the economy is nearing the end of the tariff pass-through phase. Our estimates suggest tariffs have lifted prices by about 63bp so far, with total pass-through closer to 70bp. We saw early signs of deceleration in March and expect that trend to continue."

- Core PCE tracking: 0.24% M/M increase in May, with the gap "driven by strength in financial services and healthcare PCE […] Strong equity market performance in April should push financial services PCE higher, and we expect a reacceleration in health inflation following April's downside surprise."

BofA: Core CPI seen at 0.20% M/M and 2.8% Y/Y in May, headline at 0.46% M/M and 4.2% Y/Y

- Cooler core CPI "reflects our expectations for modest core goods (+0.05% m/m), a normalization in rent, and softer core services ex rents."
- "For the policy outlook, the focus will be on the implications for core PCE inflation, especially since it's been running above CPI since last Nov."

Nomura: Core CPI seen at 0.18% M/M and 2.8% Y/Y in May, headline at 0.45% M/M and 4.2% Y/Y

- The expected moderation in core CPI comes "as a temporary boost from technical adjustments to rent-related components diminished."
- "Incoming data suggest core goods price inflation remained slightly positive in May. While the tariff impact continued to wane, information technology commodity prices rose further, reflecting higher production costs for consumer electronics."
- "Supercore service CPI inflation likely decelerated modestly in May, partly due to negative residual seasonality, although airline fares continued to rise strongly due to higher jet fuel costs."
- "Regular rent and owners' equivalent rent (OER) likely moderated after having been distorted by technical factors in the previous month. However, we expect May data to show rent disinflation remained gradual."
- "Although the tariff shocks continued to fade, new inflationary pressures from emerging sources along with anticipated acceleration in May core PCE inflation are likely to keep policymakers vigilant on inflation risks. This supports our Fed call of no rate cuts through the end of 2027."
- Core PCE tracking: 0.33% M/M for May, translating to 3.4% Y/Y. "Despite our expectation for relatively benign core CPI inflation, PCE-relevant PPI data likely boosted May core PCE inflation due to higher prices for financial services and airline fares."

Goldman Sachs: Core CPI seen at 0.17% M/M and 2.8% Y/Y in May, headline at 0.45% M/M and 4.2% Y/Y

- "We expect mixed autos inflation, reflecting unchanged used car prices, a 0.1% increase in new car prices, and a 0.1% decline in the car insurance category."
- "We forecast benign readings for the shelter categories—a 0.22% increase in the OER category and a 0.22% increase in the rent category—reflecting the continued slowdown in their underlying trend."
- "We expect increases in the travel services categories (airfares: +2%; hotels: +0.2%), reflecting signals from alternative price data. We expect downward pressure from potential residual seasonality on the communication categories and public transportation categories outside of airfares."
- Core PCE tracking: 0.27% M/M in May. "We expect a sharp increase in the financial services component—reflecting the increase in equity prices in April, which flow through to the component with a lag—to contribute to the larger increase in core PCE prices than the core CPI."

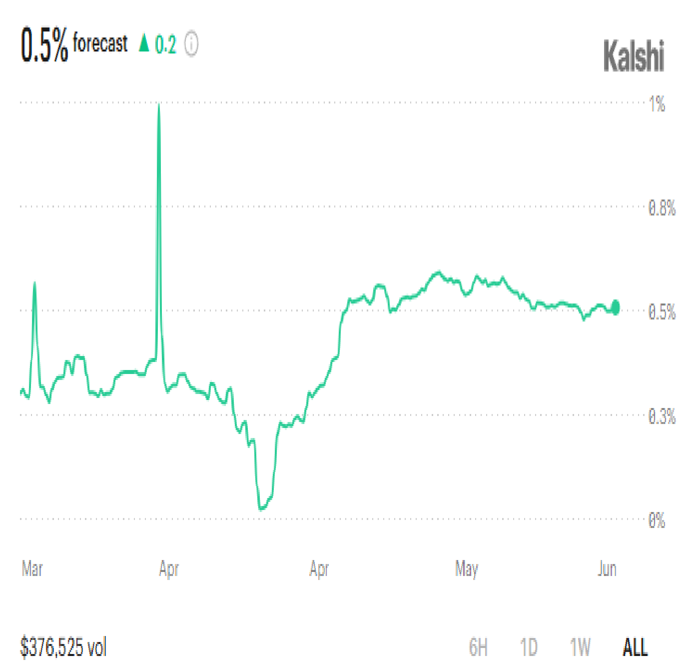
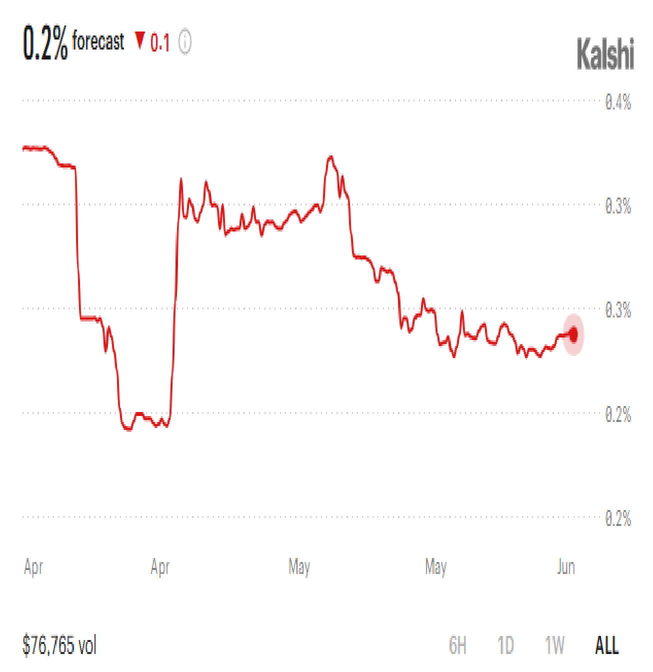
UBS: Core CPI seen at 0.17% M/M and 2.8% Y/Y in May, headline at 0.46% M/M and 4.2% Y/Y

- This core CPI print would be "the smallest increase since May of last year (excluding the missing October/November monthly changes)."
- "Our core CPI projection is well below both the current Bloomberg consensus average projection and the projection from our Nowcasting team."
- "A key reason for the moderate core CPI increase is residual seasonality in the data that is largely a result of including the pandemic years in the seasonal adjustment routine. We estimate that the published seasonally-adjusted monthly core CPI change […] will be held down by around 0.09pp compared using an alternative procedure that includes a longer time span of years, but excludes 2020-2022 from the sample used to estimate seasonal adjustment factors."
- "Core non-transportation goods prices continue to increase amid gradual tariff pass-through, but the peak 12-month change is likely passed. Tariff revenue as a share of consumption has been declining since November. A new bout of tariff-induced price increases for core goods could occur in the second half of this year with the implementation of section 301 tariffs (such as the announcement on Monday of possible 25% tariffs on most imports from Brazil) likely to replace expiring section 122 tariffs in late July."
- "Additionally, AI-adoption related inflation could push up prices for some items: the Adobe Digital Price Index (DPI) has shown a considerable strengthening in computer prices in recent months."

- Core PCE tracking: 0.32% M/M increase in May. “1. a strong increase in PCE financial services prices, 2. A smaller impact of the seasonality problems that will hold down the core CPI changes, and 3. an assumption that prices for software and accessories will again increase strongly (which receive considerably more weigh in PCE prices than in the CPI). As a result we project that core PCE price inflation that was as low as 2.75% in October will rise to 3.4% in May, which we project will be its peak for the year.”

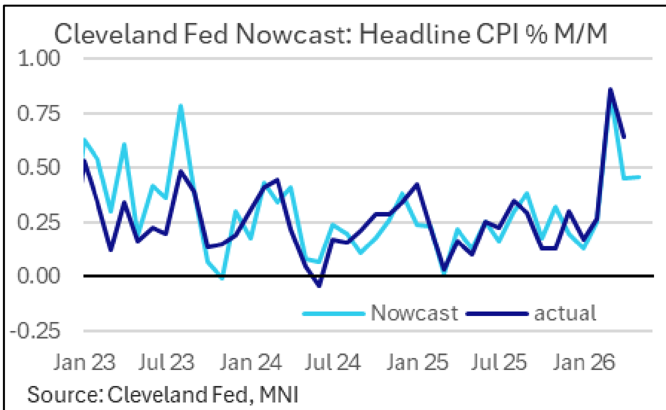
Recent Inflation Developments

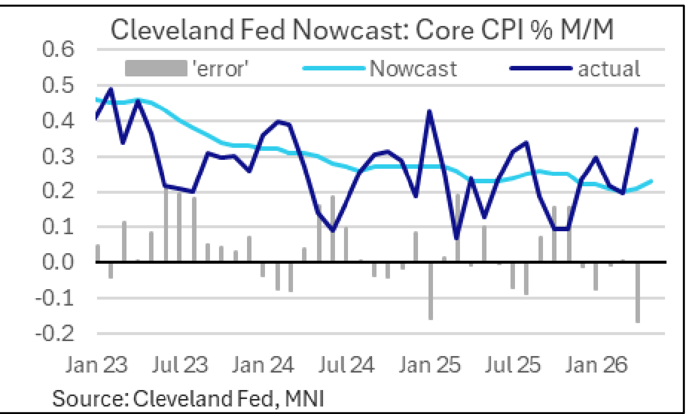
Prediction markets: Kalshi betting is centered on a 0.5% M/M print for headline whilst it sees downside risks to the 0.3% M/M Bloomberg consensus for core CPI but not quite to the same extent as the median unrounded estimate note above. The market remains very thin, especially for core.

Headline CPI M/M Inflation (%, SA)	Core CPI M/M Inflation (%, SA)
	

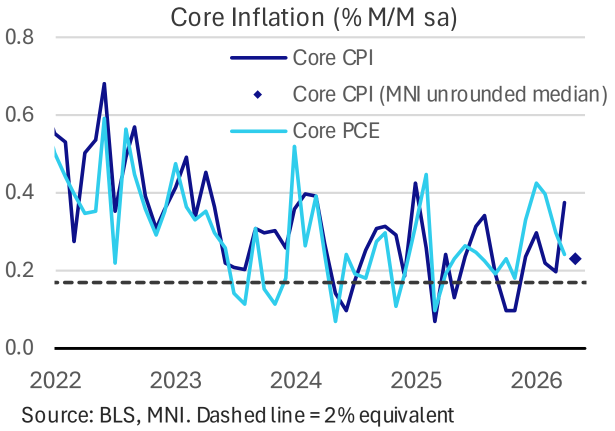
Source: Kalshi – taken as of Jun 8, 2026 1305ET

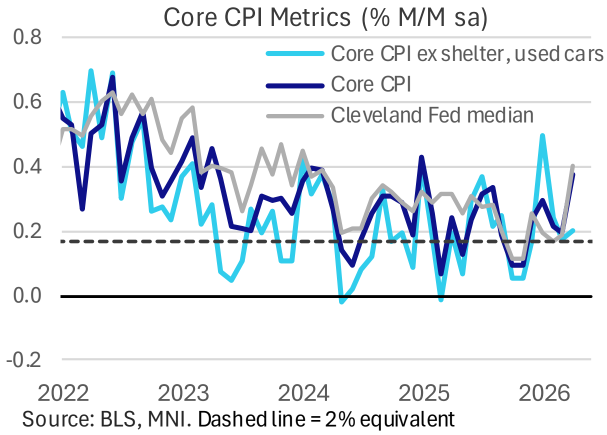
Nowcast: The Cleveland Fed nowcast has headline CPI at 0.46% M/M in May after 0.45% in April, whilst it sees core CPI at 0.23% M/M after 0.21%. These April estimates significant undershot realized readings of 0.64% and 0.38% M/M respectively, which we suspected before last month’s release was down to missing the rental inflation component (seen by some to add 10bps to core CPI inflation). Before April, the core nowcast had been impressively accurate in March (exactly right at 0.20% M/M) and February (just 1bp lower than the realized 0.22% M/M) after a more mixed period before that.

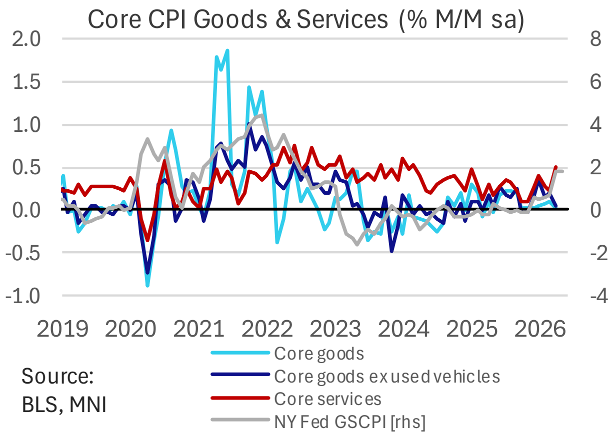


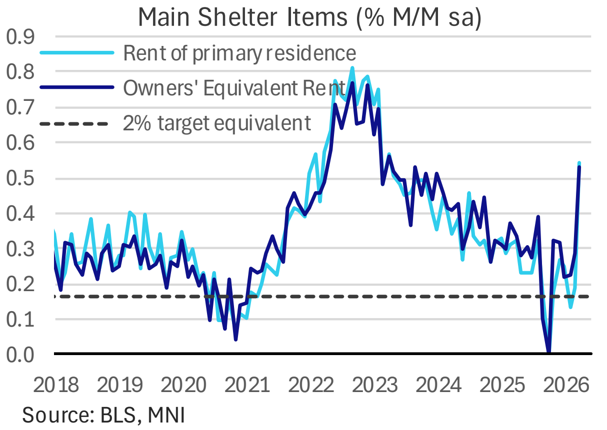


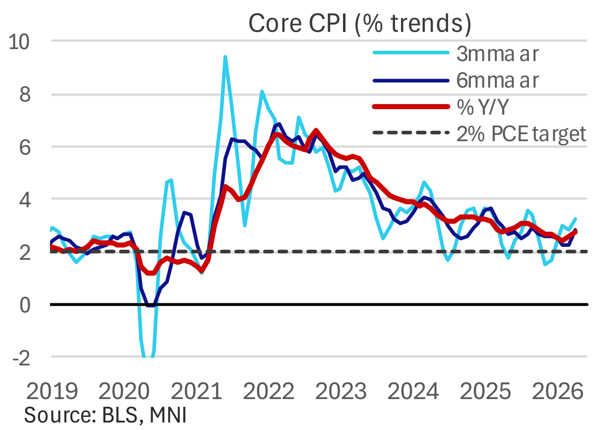
[Reminder: The below charts show two-month averages calculated from cumulative changes across Sep-Nov 2025]

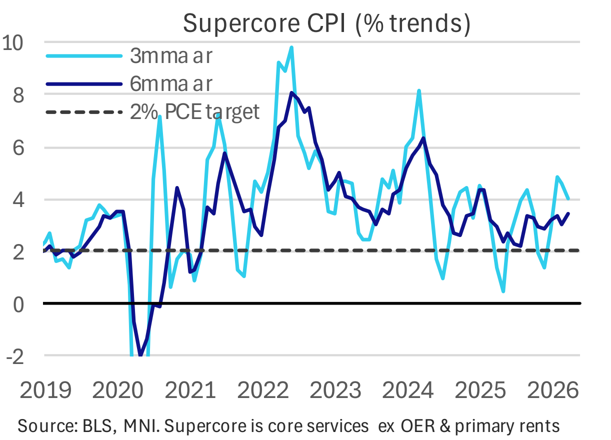




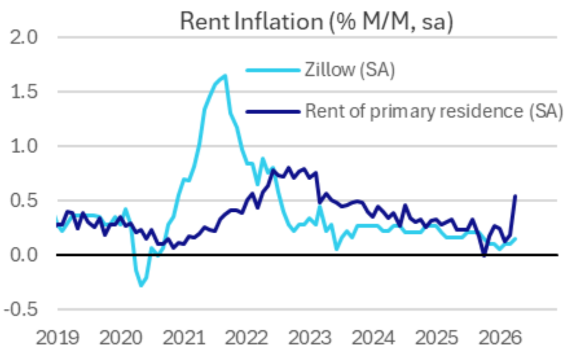




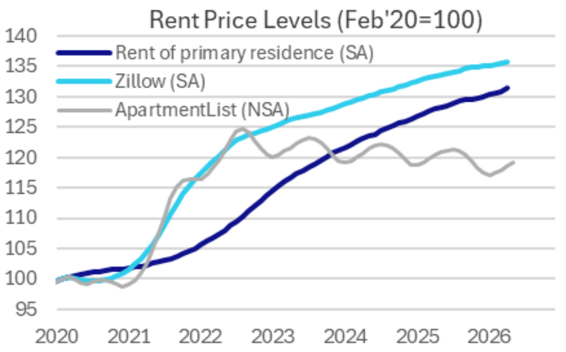




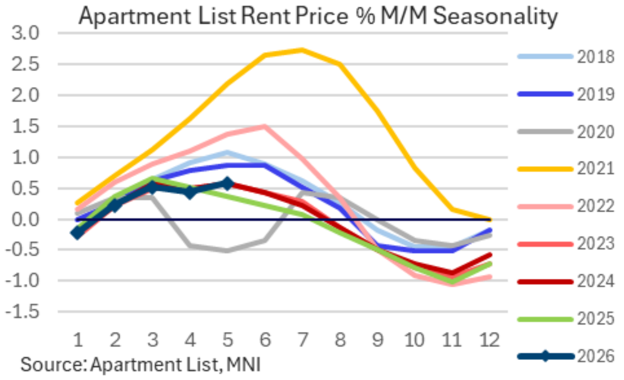
Housing Inflation



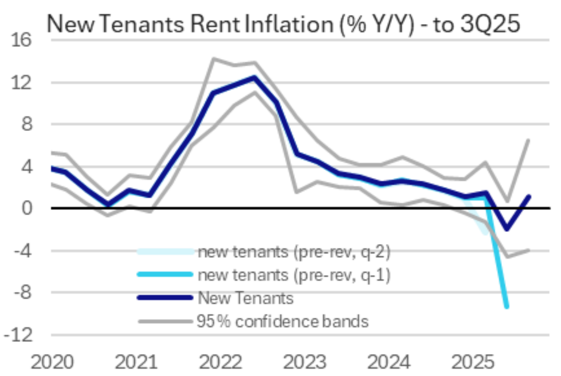
Source: BLS, Zillow and MNI



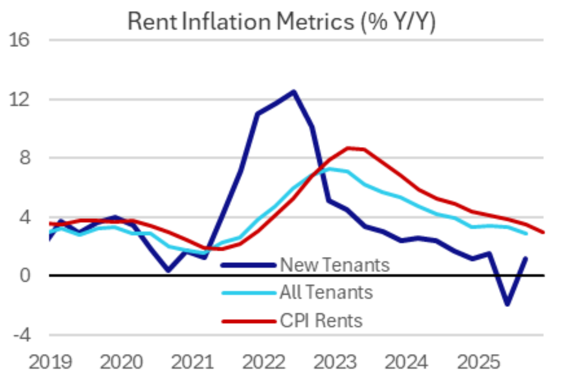
Source: ApartmentList, BLS, Zillow and MNI



Source: Apartment List, MNI

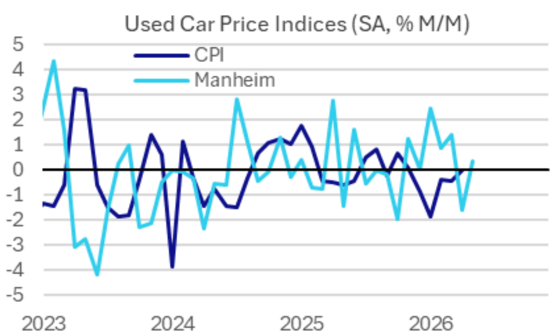


Source: BLS, MNI

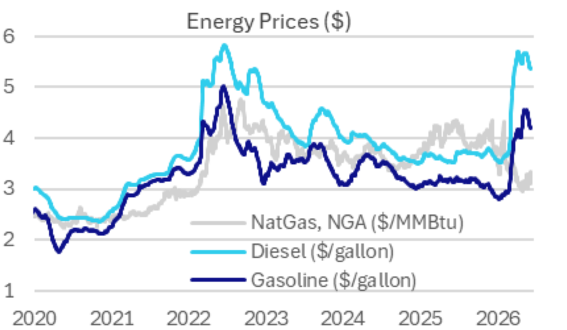


Source: BLS, MNI

Notable Goods Prices



Source: Bloomberg Finance L.P., MNI



Source: Bloomberg Finance L.P., MNI

Full recap of the prior CPI report here, with our report titled "Energy And Services Pack A Punch":
https://media.marketnews.com/US_Inflation_Insight_May2026_7914be7693.pdf

MNI Policy Team Insights

MNI INTERVIEW: US Financial Stability Risks Mounting - Ghamami

By Pedro Nicolaci da Costa (Jun 8, 2026)

WASHINGTON - Risks to the U.S. financial system are high and rising as the Iran energy shock exposes vulnerabilities like unprecedented growth in private credit and an increasingly debt-fueled boom in AI, former Fed and Treasury economist Samim Ghamami told MNI.

“The combination of all these factors would tell me that the level of risk in the financial system in the U.S. and globally is high currently,” said Ghamami, who worked in the Treasury's Office of Financial Research, created after the Global Financial Crisis to monitor threats to stability.

He noted that the Iran war has already been going on for longer than most policymakers had originally hoped, which is leading to a weaker outlook for growth, the prospect of significantly higher inflation and increasingly unsustainable debt loads reflected in higher bond yields. (See MNI INTERVIEW: Fed Can't Ignore Mounting Price Pressures-Liang)

“The distress in private credit markets, mostly in BDCs, earlier this year was largely due to a slack software sector and largely driven by the huge AI investments that we have been observing in the past few years,” said Ghamami, who is now chief economist at the New York State Insurance Fund, in an interview. He noted these are his personal views and do not reflect those of the New York State Insurance Fund, the government of the State of New York or any New York State government agency.

“I'm also worried about the potential burst in the stock market because of the AI world, mostly because until the recent past investment in AI was essentially through cash flows, meaning equity as opposed to debt financing, but it is well known that it has now turned into debt financing, and in some parts of the AI value chain, for example data centers, to CMBS as well,” he said. “Part of that recent development in debt financing has been fueled by private credit.”

Ghamami acknowledged that the size of the private credit market is still fairly small for it to be a systemic concern – only around USD1.4 trillion, about 10% of outstanding non-financial U.S. corporate debt. But he also worries that in a financial system that according to his research is now more interconnected than before the GFC, even smaller markets can have considerable ripple effects.

“In the presence of these vulnerabilities everything could be propagated and amplified through the financial system and that could lead to a financial crisis,” he said.

Concerns about private credit mounted this year when a handful of bankruptcies in the sector spilled over into losses for traditional banks.

“Policymakers, regulators would need to find ways to measure and monitor financial stability risks that could arise because of this unprecedented growth in private credit markets,” said Ghamami.

MNI INTERVIEW: Fed Can’t Ignore Mounting Price Pressures - Liang

By Pedro Nicolaci da Costa (Jun 4, 2026)

WASHINGTON - The Federal Reserve needs to keep a close eye on inflation to ensure a recent uptick does not become more embedded in the price-setting behavior of businesses and consumers, former Fed economist Nellie Liang told MNI.

“The longer it goes on, the longer it gets ingrained, so I think there is some upside risk to inflation,” said Liang, also former Under Secretary of Treasury For Domestic Finance, in a new episode of The FedSpeak Podcast.

“The Fed will need to be paying very close attention to this. The way they do this is by looking for evidence of how it might be changing price-setting behavior or wage-setting behavior, or if this is just a level shift, and the Fed should just look through it.”

Liang cited mixed messages from measures of inflation expectations, which have resumed their ascent among consumers even over longer time horizons but remain fairly anchored according to market bets.

TOO SOON TO TELL

“We're seeing higher inflation, we're not seeing inflation expectations from financial markets becoming unmoored, but consumers are starting to show signs of concern,” she said.

Against this backdrop, Liang said “it's too early to tell at this point” whether the central bank will hold rates for a prolonged period or choose to raise them. (See MNI INTERVIEW: Fed Needs To Signal Ready To Hike-Baumesiter)

“Inflation has been above target for several years. It had been projected to reach its target over coming years, maybe in 2027 but this is clearly an interruption to that,” she said.

Warsh’s focus on streamlined communications could lead to a more succinct policy statement, Liang added.

BALANCE SHEET

Liang said she expects the new Fed Chair Kevin Warsh to forge ahead with his plans to shrink the central bank’s balance sheet, primarily through efforts to implement changes to regulation and liquidity requirements that can reduce bank’s demand for reserves.

She said that while a large balance sheet does not have obvious economic consequences, Warsh has made a persuasive case that the central bank’s large asset base does create political problems by confusing the roles of Treasury and the Fed and raising concerns about fiscal dominance.

“Chair Warsh, consistent with his views on the balance sheet, thinks it's important to reemphasize the independence of the central bank to sort of clarify the separate lanes that Treasury and the Fed work in and are responsible for,” said Liang.

FED TREASURY ACCORD

That could be the aim of a new Fed-Treasury Accord that Warsh alluded to before his nomination. (See MNI: Warsh Wants Fed Out Of US Treasury's Business)

“This is because the Fed has a bigger balance sheet and Treasury has more debt, and separating out responsibilities and authorities can be useful to clarify their shared objectives but clear boundaries, and I think that would be the goal of revisiting the accord.”

Liang said recent reforms to the Treasury market including the implementation of central clearing and efforts to get more data on the repo market are improving resilience against market disruptions. But she added that the sheer size of the U.S. debt load limits the effectiveness of any particular reform effort.

“Congress does need to get our fiscal position on a stronger trajectory. It is on an unsustainable path, and you can change the abilities of dealers to intermediate Treasuries, you can change the rules around how asset managers and hedge funds participate to provide liquidity in this market, but when there's a lot of debt, the potential for disruptions is just bigger,” she said.

Any reduction in the USD6.7 trillion balance sheet would likely be gradual and brought about through efforts to reduce the demand for reserves.

“There's been quite a bit of work already floating around outside the Fed, and I assume inside the Fed, about different ways to bring down the balance sheet without causing disruptions in short-term funding markets, especially the repo market,” she said. “There's a bunch of supervisory tools that could be used encouraging banks to use the discount window when they need funding.”

MNI INTERVIEW: Fed Needs To Signal Ready To Hike - Baumeister

By Evan Ryser (Jun 3, 2026)

WASHINGTON - The Federal Reserve needs to send a signal that it stands ready to raise interest rates if necessary, with heightened risks that inflation expectations could de-anchor, Chicago Fed advisor and economics professor Christiane Baumeister told MNI.

"The Fed would be well advised to send a clear signal at this point," she said in an interview. "Inflation expectations have already been on the rise. Consumer sentiment has been declining fast and hitting a record low, lower than in the financial crisis. All that doesn't bode well."

Inflation has been above the central bank's target for five years, and the most recent Fed projections showed officials do not expect it to reach 2% until 2028, said Baumeister, a consultant and former visiting scholar to regional Fed banks. Consumer psychology has changed since inflation surged after Covid and expectations are at risk of de-anchoring again amid another adverse supply shock, this time from the Iran war, she said.

"I'm particularly concerned about the Fed's credibility at this point. The independence of the Fed has been on shaky grounds and that erodes trust," she said. "Then I think there's a real threat that inflation expectations could become unanchored. So in my view the only way out there is for the Fed to act decisively and send a clear signal that they are an inflation-fighter in that regard."

Final results of the May University of Michigan consumer survey showed year-ahead expectations jumping to 4.8% from 3.4% in February, prior to the commencement of conflict in the Middle East, while long-run inflation expectations climbed from 3.5% in April to 3.9% in May. A New York Fed survey showed year-ahead inflation expectations rising to 3.6%, though longer-term expectations have been unmoved. (See: MNI INTERVIEW: Fed's Next Rate Move Could Be A Hike-Haslag)

INFLATION PSYCHOLOGY

With inflation expectations on the rise, the Fed doesn't have the luxury of waiting to determine whether demand destruction from higher prices will help loosen price pressures over time, said Baumeister, a professor at the University of Notre Dame.

"Initial conditions are different than where we found ourselves before the inflation surge or the energy crisis in relation to the Ukrainian crisis, and so currently consumers are just more attentive to inflation, because they witnessed this recent surge, and so that means that they will be potentially more reactive and building in inflation into their expectation of future inflation increases."

Baumeister is skeptical that the war with Iran will come to a speedy and clean resolution. "In my assessment, there will be no quick resolution, and, even if we find a resolution, it will take quite a while to get back to something that we can call normal again, and I think it's going to be a new normal that looks very different from what we have seen before, at least when it comes to the oil market."

Determining in real time whether inflation expectations are de-anchoring can be difficult, she said. "You know it when you see it in a way, but you cannot see it until it's too late. That's my concern. So I don't want to wait."

"Demand destruction that they are counting on down the road - I mean it will happen - but I'm just afraid that it'd be too late, in the sense that inflation expectations by that time will have become unanchored," Baumeister said. "I see a real risk for revisions in medium-term inflation expectations down the road, and once the genie is out of the bottle it might be painful to get inflation expectations anchored again."

MNI INTERVIEW: Service Growth Sturdy, Cost Pressures Build - ISM

By Evan Ryser (Jun 3, 2026)

WASHINGTON - U.S. service sector growth looks sturdy, supported by AI investments, while higher productivity is keeping job growth rangebound and cost pressures continue to broaden, Institute for Supply Management services chair Steve Miller told MNI.

"Our 12-month average on the PMI is up for the fifth month in a row, so it feels like more stable growth," he said in an interview.

The ISM services index increased 0.9 percentage point in May to 54.5, above expectations and the second best reading this year. The report showed a jump in demand and higher price pressures, but the employment index remained in contractionary territory. An index at 50 represents the dividing line between expansion and contraction.

"We're seeing continued strength," Miller said. "The orders are high, business activity is high, and we're not seeing any increase in employment. It's kind of a dichotomy that's hard to resolve without saying we're getting productivity from somewhere."

STURDY DEMAND

The inventories and new orders indices rose on buy-ahead activity in anticipation of higher prices, Miller said. New orders jumped 3.8 points to 57.3, partly reversing April's 7.1 percentage point plunge, and has been in expansion for 12 consecutive months. The inventories index increased 9.4 percentage points to 62.5, matching the all-time high for this measure going back to 1997.

"As more costs flow in the supply chain related to petroleum, you have so many tiers when you get to wholesale -- the wholesale trade, then wholesale trade to construction, construction to utilities, and then utility costs -- that people are concerned that it's going to be a long-term cost spike," he said.

"Where they have certainty of demand, they're buying ahead, and they're not concerned about buying ahead, because they're pretty confident in demand." (See: MNI INTERVIEW: Fed's Next Rate Move Could Be A Hike-Haslag)

Miller said he has been worried about demand destruction over time as prices rise, but he is not seeing any signs of it in the ISM survey comments. "You have record low consumer confidence from University of Michigan survey, but that certainly isn't showing up in our numbers yet."

HIRING CONTRACTION

The employment index was in contraction for the third straight month at 47.9, down from 48.0 the prior month. "The commentary on employment was not that there were mass layoffs but freezing headcount and holding off on backfills, which all kind of indicate there's some uncertainty around demand," Miller said.

Some firms aren't hiring because the macro-outlook is uncertain. "The caution is well warranted as to whether this is a seasonal thing combined with some buy ahead activity or whether it's going to be sustained growth."

Another potential signal from the contractionary employment reading is that AI is having an impact, he said.

"The AI fan would say it seems to be a leading indicator of services starting to see some level of productivity from somewhere, and the likely place would be real use cases starting to impact employment levels within services."

PRICE INCREASES

The energy price shock from the Iran war kept the prices index elevated at 71.3, up 0.6 point from last month. There were 31 commodities reported up in price, up from 17 in April, 0 reported down in price, and 5 reported in short supply.

"We're starting to see those manufactured products that include oil are seeing pricing impacts for prices paid," he said. "We're definitely seeing it start to flow through. I expect we'll see it flow through into more commodities over the next two to three months." (See: MNI INTERVIEW: Fed Needs To Signal Ready To Hike-Baumeister)

Miller said the Federal Reserve is in a tough spot. "The risk for increasing interest rates on consumers is too high, but I don't see how they can drop rates anytime this summer with the numbers where they are, because we're going to see elevated prices paid numbers for at least the next three months."

MNI INTERVIEW: Rising Costs Could Test US Factory Growth - ISM

By Evan Ryser (Jun 1, 2026)

WASHINGTON - The U.S. manufacturing sector gained momentum in May, expanding at the fastest pace in four years, though the prospect that rising prices could sap demand muddled the outlook, Institute for Supply Management manufacturing chair Susan Spence told MNI Friday.

"My gut is if this war can come to an end this month, and it would probably take a few months for the prices to start to settle back down, then you really could see growth take off," she said in an interview. "Conversely, I'm worried that a continued conflict not only can sap demand for things like consumer products, but if people aren't feeling good about things, then their paycheck is impacted."

The ISM manufacturing index jumped to the highest level in four years in May, up 1.3 percentage points to 54.0, above market expectations. The principal manufacturing measures were up, with new orders increasing 2.7ppts to 56.8, production rising 0.9ppts to 54.3, and employment up 2.2ppts to 48.6.

The comments generally suggest that the manufacturing sector is managing higher energy prices reasonably well, Spence said. "My first impression was relief," she said about the May report. "I think that there's momentum in the trajectory."

INFLATION CONCERNS

The prices index remained sky-high, easing only modestly to 82.1 vs 84.6, indicating that over 80% of all respondents are experiencing rising prices. There were 43 commodities reported up in price versus 0 reported down in price, and 9 commodities were in short supply.

Price volatility is Spence's biggest worry: "Almost 60% of folks are saying it's killing us. We'll see if that chokes off demand. That's my remaining concern."

Spence said the ISM measures show an inflationary picture. (See: MNI INTERVIEW: Fed's Next Rate Move Could Be A Hike-Haslag)

"The question is either people are going to run out of raw materials because you know of the issues with the Strait in the Middle East, or folks are going to start to see demand drop off because of pricing," she said.

Front loading by manufacturing firms was evident in rising inventory readings, with the ISM inventories index growing.

NEGATIVE TONE

Survey respondent comments were a little more negative, Spence said. For every positive comment, there were 2.7 negative comments, versus 2.2 last month. The percentage of respondents mentioning tariffs was 18%, down from 85%, Spence said, noting that mention of the Iran War was at 42%.

"People are more comfortable and confident because the big thing hurting last year, tariffs, has settled down."

MNI INTERVIEW: Fed's Next Rate Move Could Be A Hike - Haslag

By Pedro Nicolaci da Costa (May 29, 2026)

LONDON - The Federal Reserve could have to raise interest rates if the price spike linked to the war in Iran proves more persistent, former Dallas Fed economist Joseph Haslag told MNI, adding that he thinks inflation will jump significantly over the next few months.

"There is some patience, but if we're still in the same situation in three months, I would think that there's probably a 50/50 chance that the next move is a hike," Haslag, who now leads the Economics Department at Auburn University, said in an interview.

For the moment, financial markets are holding onto hopes for a swift resolution of the conflict and a reopening of the Strait of Hormuz, he noted.

But headline inflation could soon end up somewhere between 4%-5% while core inflation drifts higher to around 3.5%-4%, Haslag said.

“I think inflation expectations will be moved by the move in the inflation rate, and we're all humbly looking to see how much pass through there is. The observable inflation rates are going to go up over the next few months,” he said.

It's likely that the policy rate is already below neutral with inflation back on the march, according to Haslag, though that doesn't mean the Fed needs to react immediately. Policymakers could leave rates on hold while they wait to see how much the energy shock seeps through into other categories.

"I don't think the Fed has to respond. I think they've got a three-month grace period," he said. (See MNI INTERVIEW: Fed Should Move To Neutral Bias Soon-Natalucci)

NEW LEADERSHIP

Against that backdrop, new Fed Chair Kevin Warsh faces a tough challenge in establishing his credibility as an inflation fighter, particularly after he made a case for lower interest rates in the run-up to his nomination.

"I don't know how he's going to build a consensus if he doesn't come out with his bona fides as a hawk," said Haslag.

Fed officials have largely moved away from discussing rate cuts and have started to publicly contemplate the possibility of a rate hike. There is active discussion ahead of the June meeting on whether to drop the easing bias on rates.

Minutes from the April meeting showed "a majority of participants" thought "some policy firming would likely become appropriate if inflation were to continue to run persistently above 2%."

Haslag does agree with Warsh's view that strong productivity gains associated with the AI boom could prove disinflationary. But he added that that does not support rate cuts right now.

"Historically there's not a strong correlation between productivity gains and real interest rates," he said. "If he gets too out of whack with real interest rates on risk-free returns, he's planting the seeds for inflation. And it just doesn't seem like there's a strong case for cutting rates, whether it's productivity or not."

COMMUNICATIONS

Haslag is leery of Warsh's proposals for sweeping communications changes, which could include everything from restricting the number of public speeches officials give to changing how the Fed publishes its macro and rate forecasts – or even scrapping these altogether. (See MNI POLICY: Warsh Could Reshape Fed On Rates, Communication)

"I think it's dangerous to alter the communication infrastructure that's been built up over the years," he said. "I like transparency, people like transparency from your institutions. My instincts tell me the infrastructure is about right and to change it is going to be confusing and will introduce more volatility in a market that doesn't need any more volatility."

MNI INTERVIEW: Fed Should Move To Neutral Bias Soon - Natalucci

By Pedro Nicolaci da Costa (May 28, 2026)

WASHINGTON - Federal Reserve officials should adjust their policy statement to reflect the possibility that the next rates move could be either up or down, particularly with inflation kept aloft by the Iran war and other shocks to global supply chains, former Fed Board economist Fabio Natalucci told MNI.

"They should start communicating that hiking is a possibility. You can start with providing a more symmetric outlook for policy rates. Getting rid of the word 'additional' would be an easy low-hanging fruit in my mind," Natalucci, also a former senior IMF official and now director of the Andersen Institute, said in an interview.

The Fed's current statement refers to policymakers "considering the extent and timing of further adjustments," a phrase seen as still indicating that the next rate change would be a reduction.

"I just can't imagine how you can possibly cut interest rates here," Natalucci said.

He is concerned that repeated economic shocks like the U.S. trade war and now the war in Iran are part of a pattern of increased global fragmentation that is inherently inflationary. He's also worried about the stability of inflation expectations after five years of above-target inflation. (See MNI INTERVIEW: Iran Risks Tilt Toward Persistent - Ex-Fed Evans)

“Any shock that hits you when you are that far from the target just kind of takes you even farther away from the target,” he said. “There is this entire rethinking of the supply chain to make them more resilient. All of these combined introduce costs, make the system moving away from just in time and efficiency to really about resiliency, just in case.”

PRICE MENTALITY

He thinks a period of prolonged inflation has made consumers more accustomed to price increases and companies more willing to push them through.

“The reluctance that we saw pre-Covid to raise prices, that mentality is changing a little bit,” Natalucci said. “You can slice data wherever you want. Everything is pointing to an acceleration.”

And even if the Iran war ends today, shortages of energy and other basic goods caused by the closure of the Strait of Hormuz will linger, he said.

While the advent of AI could eventually lead to a productivity boom that brings down inflation, the surge in chip demand and data center capex is actually putting upward pressure on prices, Natalucci said.

“The data center capex, the new demands for chips, demand for memory, all of that notwithstanding the medium- to longer-run impact on productivity, seems to be adding to inflationary pressure,” he said.

WARSH FED

Natalucci said he would welcome changes to the Fed’s communications approach, which new Fed Chair Kevin Warsh has criticized for being cacophonous and for using forward guidance that he sees as unduly binding. The best way to move away from this, said Natalucci, is to more avidly embrace the kind of scenario analysis that keeps the central bank’s options open.

“My preference has always been for scenarios. I think the urgency of scenarios is even more evident in the current environment of huge uncertainty,” he said.

“The SEP discussion, the dot plots, all that stuff probably would take longer to do. You don't have to scrap the SEP. I think you could downplay the SEP. The easy way would be to not publish the SEP the day of the press conference, and maybe release them with the minutes."

BALANCE SHEET

Warsh, who has been a critic of the Fed’s large balance sheet, could also seize the chance to further clarify the role of asset purchases in the central bank’s menu of policy options, according to Natalucci. (See MNI POLICY: Fed Prepares Balance Sheet Options For Warsh)

“The Fed could have done a better job of communicating balance sheet policies in terms of objective, size, composition. How to think of QE versus lender of last resort, when you buy for QE or when you buy for financial stress?” he said. “I think there's another opportunity to come up with a clean balance sheet policy, putting in place at least some principles of size, composition.”