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Consumer Price Index (CPI) Forecast — July 2026

A plain-language briefing for community bank and credit union officers

Bottom Line

Inflation (CPI) is running at 3.5% year-over-year as of June 2026, down from a cycle-high 4.3% in May. Martingale Solution Group's central forecast ("Expected Baseline"), which draws on bond and inflation-swap market pricing plus surveys of professional economists, sees inflation cooling toward the Fed's long-run comfort zone — roughly 2%–3% — over the next two years. Our stress scenario ("Adverse") shows inflation reaccelerating sharply, peaking around 6% in 2027 before moderating, if energy prices and tariff pass-through prove more persistent than expected. The path has been unusually volatile this year, which argues for keeping both the Expected Baseline and Adverse scenarios in view rather than anchoring on one number.

Where Things Stand Today

CPI rose from 317.67 (Jan-2025) to 333.95 (Jun-2026), a cumulative gain of 5.1%. The path was uneven: inflation ran near a 2%–3% annualized pace through late 2025, then accelerated sharply to roughly 9% annualized from January–May 2026 as tariff costs reached consumers — businesses spread the increases over several months rather than passing them through all at once. May's year-over-year reading hit 4.3%, among the cycle's highest. June, however, surprised to the downside - CPI fell 0.4% for the month, as energy prices dropped and services/housing costs eased, pulling year-over-year inflation back to 3.5%.

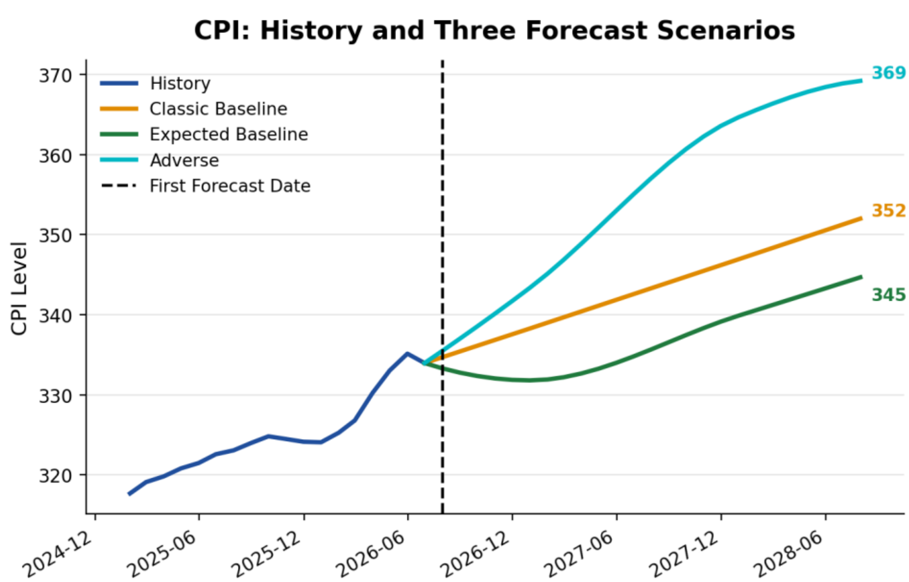

Figure 1. Historical CPI (blue) and the three forecast scenarios, July 2026–July 2028.

Three Scenarios, in Plain Terms

Scenario	In Plain Terms
Classic Baseline	A simple long-run average, based on 25+ years of CPI history. It reacts weakly to today's headlines — useful as a steady reference point, not a robust prediction of what happens next.
Expected Baseline	MSG's most likely path. It comes from the Cleveland Fed's inflation-expectations model, which blends Treasury bond yields, inflation-swap market pricing, and surveys of professional economists — essentially, what the market and the experts expect inflation to do next.
Adverse	A stress scenario. It uses the worst 5–10% of historical monthly CPI moves over the last two decades — useful for planning.

The Numbers at a Glance (Year-over-Year Inflation)

Scenario	Today (YoY)	Dec-2026	Dec-2027	Jul-2028
Classic Baseline	3.5%	4.4%	2.6%	2.5%
Expected Baseline	3.5%	2.4%	2.4%	2.7%
Adverse	3.5%	6.0%	6.2%	3.4%

Note: "Today" reflects the June 2026 actual year-over-year CPI reading; forecast figures are computed directly from MSG's underlying model data.

Why the Adverse Case Looks So Different

The Classic and Expected paths both point toward continued cooling — inflation drifting from 3.5% today back toward the Fed's 2%–3% comfort zone. The Adverse scenario is built by applying the worst 5–10% of historical monthly CPI moves — producing a sharp reacceleration that peaks around 6% in 2027. That would only occur if the current Iran-conflict energy shock and tariff pass-through both proved far more persistent and severe than professional forecasters currently expect. Treat it as a stress test, not a base case.

What This Could Mean for Your Institution

- Loan pricing & underwriting: persistent inflation above the Fed's 2% target supports the case for rates staying "higher for longer" — worth revisiting fixed-rate loan pricing and duration assumptions against both the Expected and Adverse paths.
- Deposit & funding costs: if inflation surprises to the upside, expect continued pressure on deposit betas and share-certificate/CD pricing as depositors chase yield.
- Borrower credit quality: rising costs of living erode real household income, particularly for variable-income and lower-margin small-business borrowers — a leading indicator worth tracking against delinquency trends in consumer and small-business portfolios.

- Investment portfolio: the Adverse scenario's inflation reacceleration would likely coincide with higher-for-longer rates — a useful complementary stress case alongside the Fed funds and mortgage-rate scenarios in your ALCO package.
- Local/regional exposure: tariff- and energy-sensitive local employers and borrowers may feel cost pressure earlier and more acutely than the national CPI figure suggests.

For More Detail

- Federal Reserve Bank of Cleveland – Inflation Expectations — https://www.clevelandfed.org/indicators-and-data/inflation-expectations#background
- FRED – Consumer Price Index for All Urban Consumers (CPIAUCNS) — https://fred.stlouisfed.org/series/CPIAUCNS

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