Inflation Outlook

Global Insights Center

Q2 2026

The Hartford

Key Takeaways

Headline inflation has moved higher, driven primarily by gasoline prices, with transportation, agriculture, and construction industries most exposed due to their heavy reliance on oil and gas inputs.

Goods inflation remains elevated due to tariffs but has leveled off. While effective tariff rates have partially eased, ongoing policy shifts continue to create uncertainty.

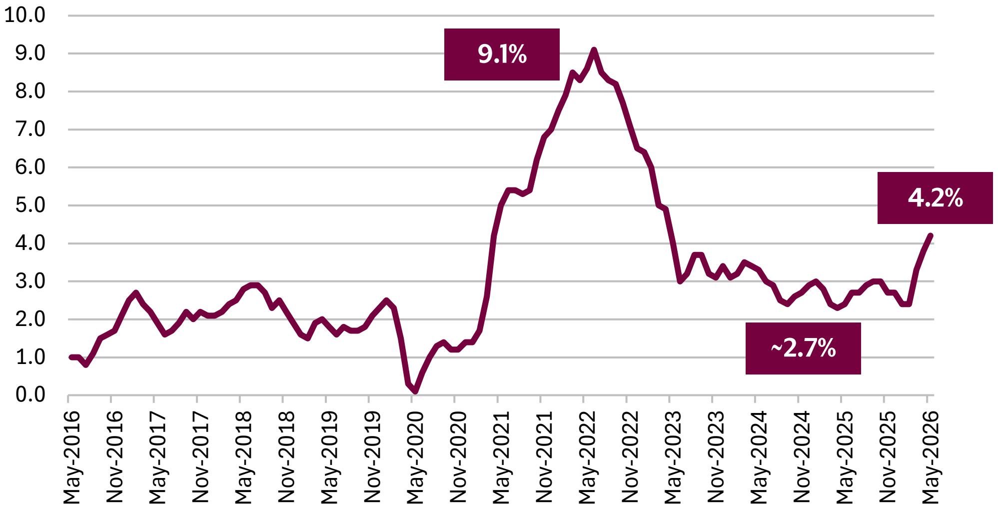
The outlook for inflation is uncertain. For the remainder of 2026, it is largely dependent on energy prices and geopolitical developments.

Headline Inflation: Moving higher

The spike in energy costs has pushed up headline inflation.

- Headline inflation accelerated to 4.2% in May, up from 2.4% a year earlier, and remains well above the Fed's 2.0% target.
- After largely easing since mid-2022, inflation has reaccelerated since March 2026, driven primarily by a sharp rise in energy prices.
- The onset of the Iran war on February 28th triggered a global energy supply shock, with disruptions to the Strait of Hormuz (a passageway that carries ocean tankers) cutting off roughly 20% of global oil supply.
- As a result, energy inflation surged to 23.5% in May, a sharp reversal from roughly flat growth over the prior three years, though still below peaks seen in 2021-2022.

Headline Inflation (YoY%)



Source: Bureau of Labor Statistics, Haver Analytics, The Hartford's Global Insights Center

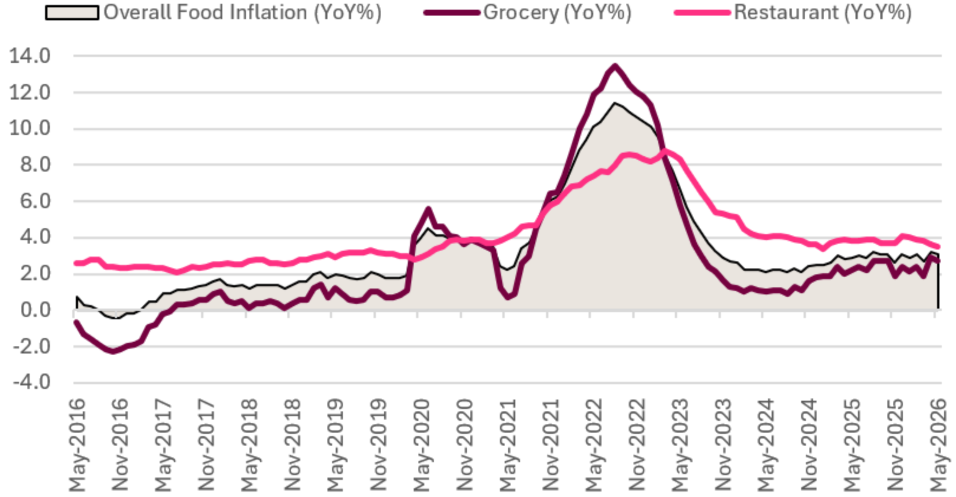
Energy Inflation (YoY%)

Source: US Bureau of Labor Statistics, Haver Analytics, The Hartford's Global Insights Center

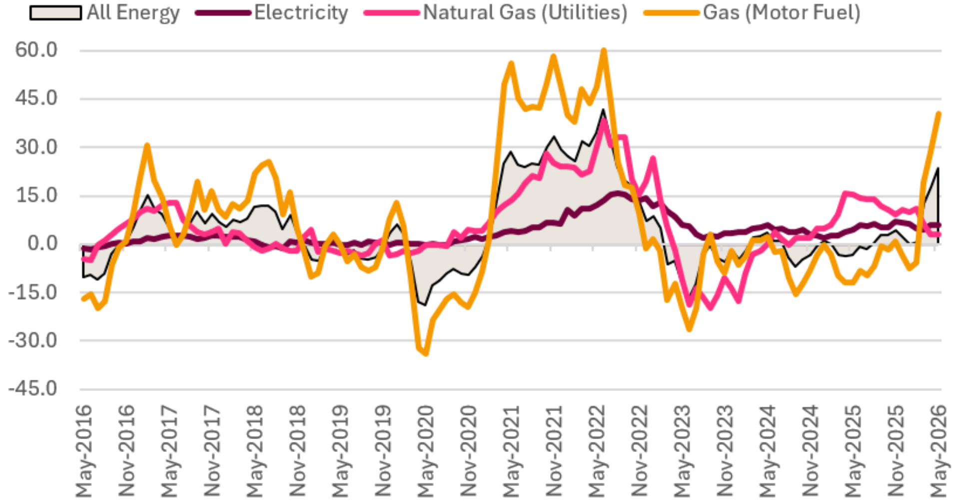
Food and Energy: Elevated levels

Food inflation remains above typical levels; energy inflation has risen sharply.

- Food inflation was 3.1% in May. Grocery was elevated at 2.7%, while restaurant eased to 3.5%, its lowest level since January 2025, but still above the pre-pandemic norm.
- Elevated food costs are driven by ongoing tariff pressures and higher transportation costs, which are linked to the energy shock and raise prices for transport-dependent perishable items like fruits and vegetables.
- Energy inflation jumped to 23.5% in May, largely driven by gasoline, which increased to 40.9%.
- Household electricity inflation (i.e. utilities) continued to trend higher, reaching 5.9%, while natural gas has moderated to 3.0% following high levels last year.



Source: US Bureau of Labor Statistics, Haver Analytics, The Hartford's Global Insights Center



Source: US Bureau of Labor Statistics, Haver Analytics, The Hartford's Global Insights Center

Energy Inflation: Industries most exposed to higher energy prices

Broad energy exposure exists across industries, with transportation most affected.

- Transportation is the most exposed sector, because fuel is a major cost for airlines, trucking, shipping, and delivery. Much of the increase is being passed through to customers, with airfares up 26.7% YoY and freight costs up 7.5% YoY.
- Agriculture is facing cost pressures from higher fertilizer prices, which are closely tied to oil inputs.
- Construction and manufacturing are energy-intensive and therefore exposed. Certain products, like roofing shingles, face added pressure due to their petroleum-based inputs.
- Other sectors like retail and restaurants are not as directly exposed to oil and gas costs but will likely experience some secondary impacts such as demand softness.

Industry	Exposure to Oil & Gas Costs
Transportation	
Agriculture	
Construction	
Manufacturing	
Services	
Wholesale	
Restaurants	
Retail	
Finance & Real Estate	

More Exposed

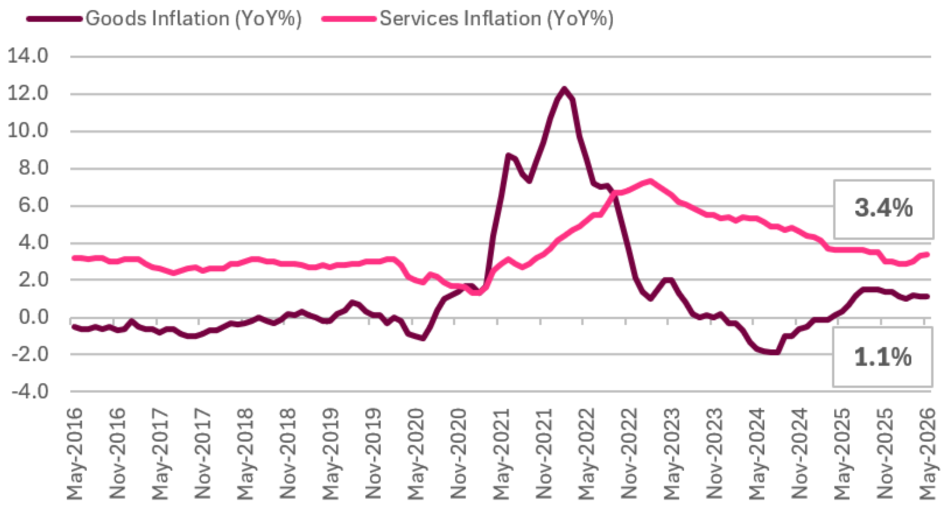
Less Exposed

Goods and Services: Running high

Goods inflation is steady but high; services is starting to tick up.

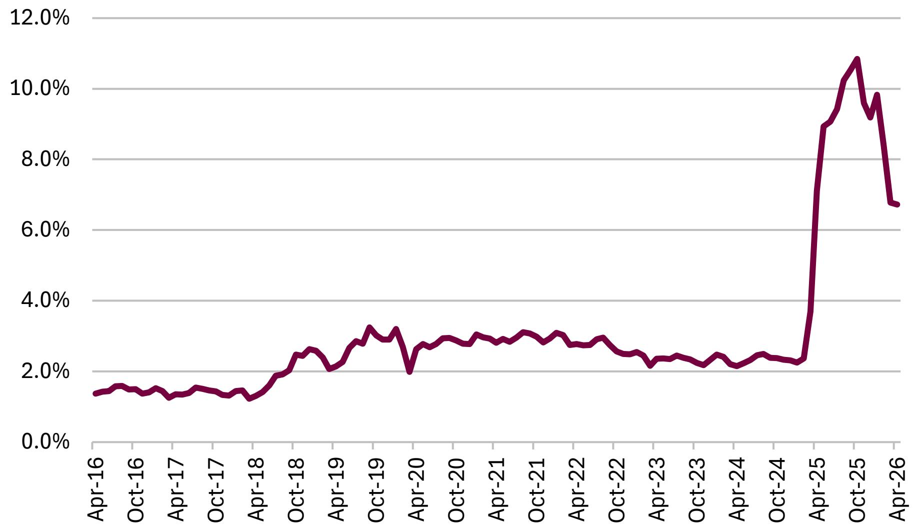
- Core goods inflation (excluding food and energy) was 1.1% in May. After being flat for years outside of 2021-2022 supply disruptions, it has moved higher recently, largely reflecting tariffs introduced in 2025.
- The U.S. tariff rate increased from 2.2% at the start of 2025 to a peak of 10.8% in October and has now eased to 6.7% following product exemptions and a Supreme Court ruling, but it remains well above prior levels.
- Tariffs policy is still uncertain. Some tariffs are set to expire at the end of July 2026, while new tariffs could still be implemented in the coming months and years.
- Services inflation has begun to move higher, rising to 3.4%. After easing from its 2023 peak, it has ticked up in recent months, driven in part by higher transportation costs.

Goods and Services Inflation



Source: US Bureau of Labor Statistics, Haver Analytics, The Hartford's Global Insights Center

Effective US Tariff Rate (%)

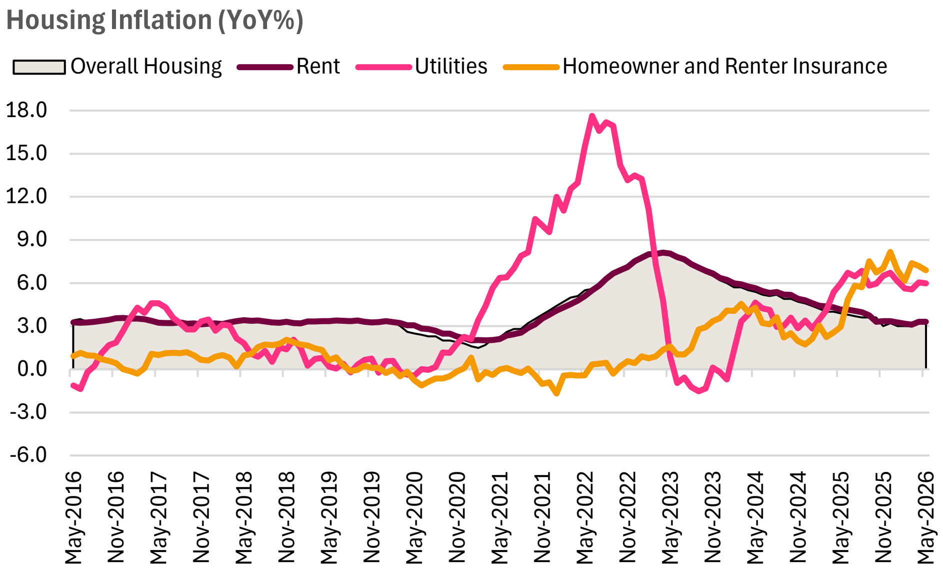


Source: Department of Commerce, Haver Analytics, The Hartford's Global Insights Center

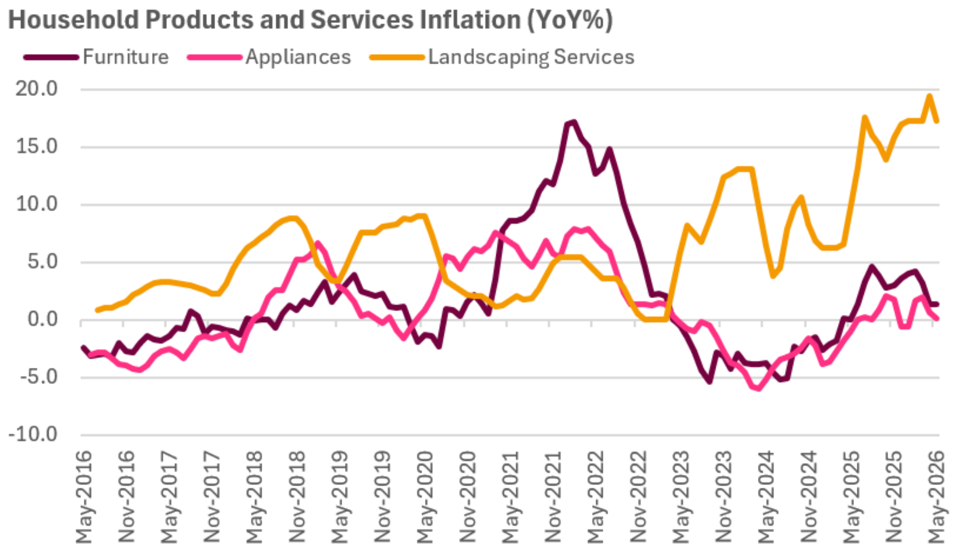
Housing: Mostly stable

Overall housing inflation has normalized, though certain aspects are above normal.

- Overall shelter inflation was 3.4%, and rent inflation was 3.3% in May, largely returning to normal after several years of elevated readings.
- Housing and apartment construction has outpaced population growth in recent years, which has helped reduce housing shortages and pulled shelter inflation back toward typical run rates.
- Other housing costs are increasing quickly. Utilities were 6.0% and insurance (homeowner and renter) was 6.9%.
- Household goods inflation is tame, with furniture at 1.4% and appliances at 0.2%. Landscaping services have been increasing steadily, now at 17.2%.



Source: Bureau of Labor Statistics, Haver Analytics, The Hartford's Global Insights Center

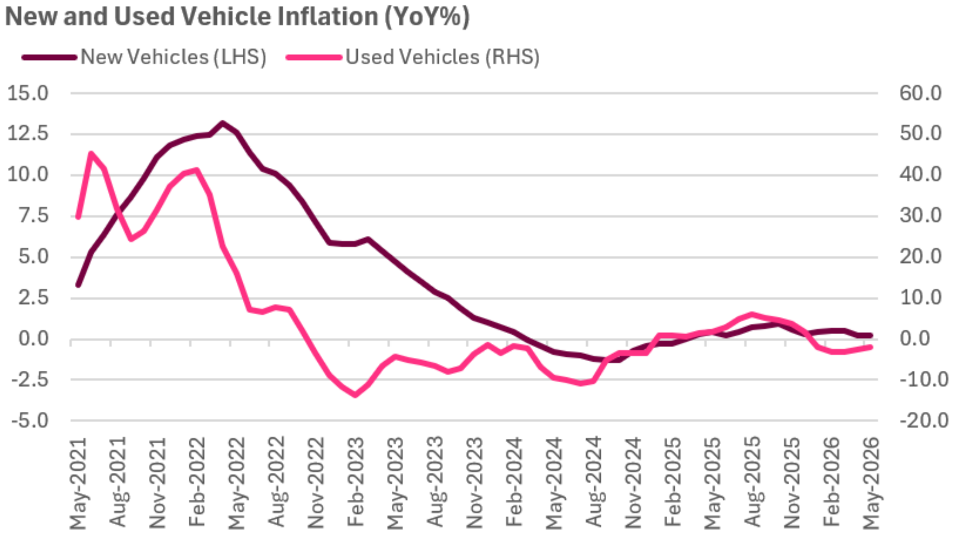


Source: US Bureau of Labor Statistics, Haver Analytics, The Hartford's Global Insights Center

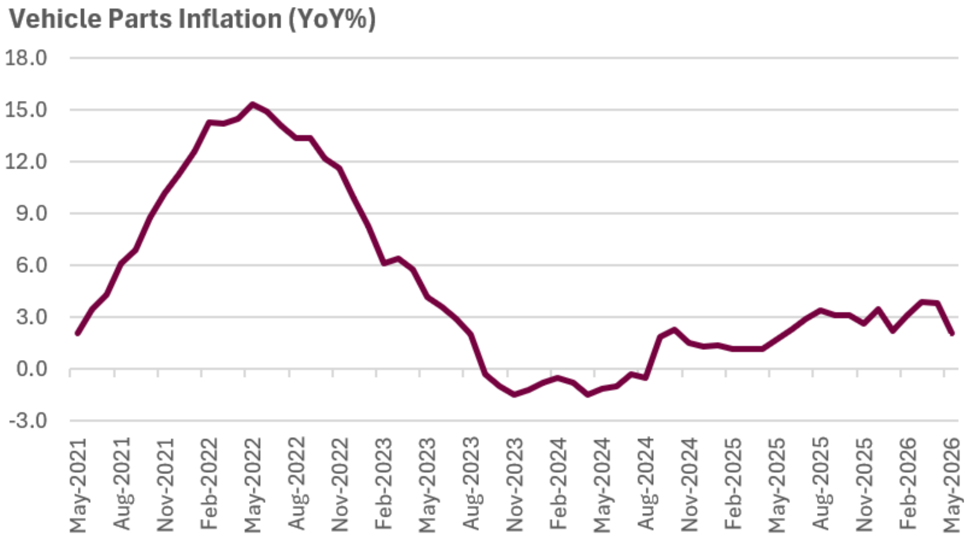
Autos: Some easing

Vehicle inflation has slowed, but auto parts inflation remains somewhat elevated.

- New vehicle prices were mostly flat at 0.2% in May, down from a peak of 0.9% in October 2025 driven by tariffs on imported autos and components.
- Used vehicle inflation has cooled significantly since peaking at 6.0% in August 2025. Prices are now declining and were down -2.0% in May.
- Auto parts and equipment inflation remains slightly elevated at 2.1%, likely due to ongoing tariff impacts.
- Personal auto insurance premium inflation has turned negative, falling to -2.0% in May. It reached a high of 20.6% in March 2024 due to high parts and repair costs, but it has recently moderated.



Source: US Bureau of Labor Statistics, Haver Analytics, The Hartford's Global Insights Center

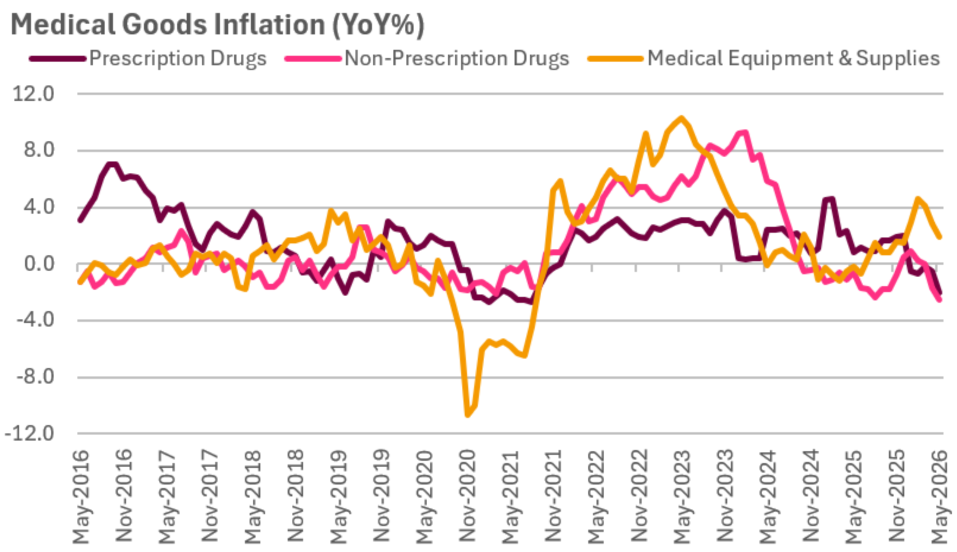


Source: US Bureau of Labor Statistics, Haver Analytics, The Hartford's Global Insights Center

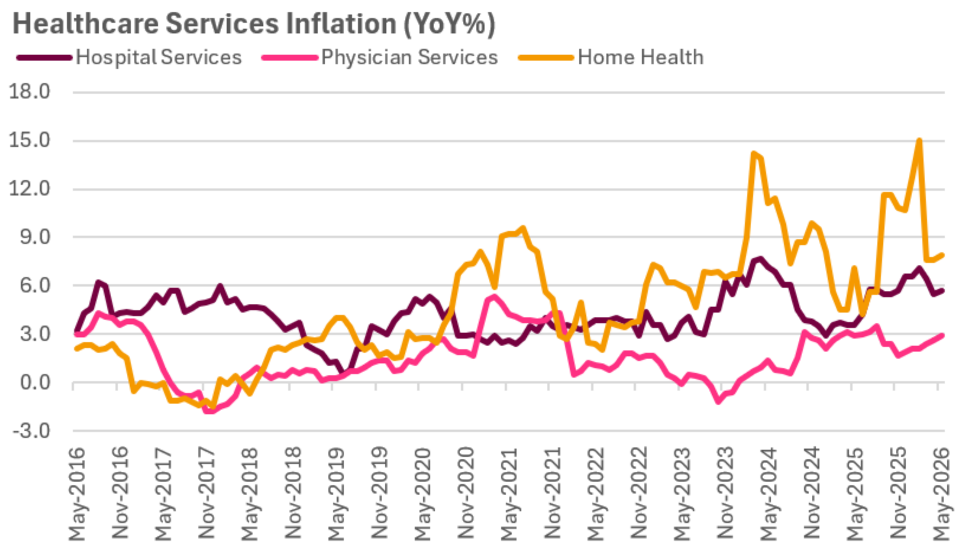
Healthcare: Mixed movements

Medical goods inflation is easing, but healthcare services are high and rising.

- Drug prices are declining, with inflation for prescription drugs (-2.0%) and non-prescription drug (-2.5%) both in contraction.
- Recent policy shifts around domestic drug pricing tied to tariff incentives could be contributing to downward pressure on drug costs.
- Medical equipment and supplies was modest at 1.9% after increasing throughout 2025.
- Physician services (2.9%) and hospital services (5.7%) are elevated. Home health (7.9%) has been volatile but generally trending upwards over the past several years as the elderly population in the U.S. expands.



Source: US Bureau of Labor Statistics, Haver Analytics, The Hartford's Global Insights Center



Source: US Bureau of Labor Statistics, Haver Analytics, The Hartford's Global Insights Center

Energy and Tariffs: Temporary factors likely

Energy and tariffs having large impact on headline inflation and the cost of living.

- Current inflation of 4.2% is well above the target rate of 2.0%.
- Inflation near 2.0% is healthy for the economy, while higher rates cause economic challenges.
- In first half of 2026, inflation began to outpace wage growth, eroding the purchasing power of employee earnings and pressuring consumer revenues in some industries.
- Most excess inflation has come from energy and tariffs. Combined, all other types of inflation were 2.4%, which is within a healthy range.
- If energy and tariff-related inflation subsides, overall cost of living could normalize and soften consumer strain.

2026 Inflation Drivers.

1.4%	+	0.4%	+	2.4%
Energy		Tariffs		Everything Else

4.2%

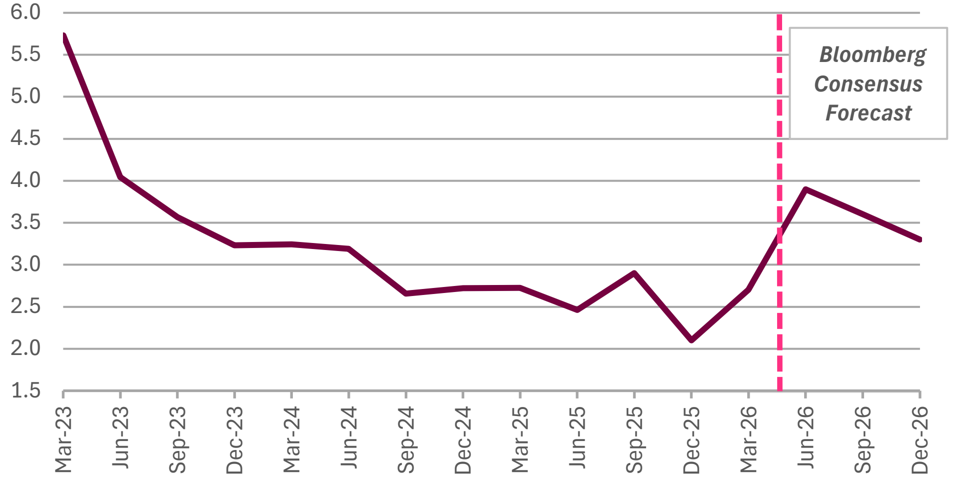
Overall Run Rate
May 2026

Source: Bureau of Labor Statistics, Haver Analytics, The Hartford's Global Insights Center

Inflation Outlook: Outlook

- An international energy shock emerged in early 2026, stemming from geopolitical conflict in the Middle East and sending global oil and gasoline prices higher.
- This raised energy prices for U.S. consumers and businesses, leading to faster overall inflation and a higher cost of living.
- Energy prices began to decline in June as the Middle East conflict moved closer towards a resolution. Prices are still above pre-conflict levels, but the downward trend has created a market expectation of softening (but still elevated) inflation later in the year.
- That said, substantial geopolitical uncertainty persists and energy costs could increase again before year's end, adding uncertainty to the inflation outlook.
- Market consensus is 3.5% average inflation in 2026, with the potential for higher/lower readings, depending global geopolitical developments.

Inflation (YoY%)
Bloomberg Consensus Forecast



Source: Bloomberg

Gasoline Price (USD/Gallon)

Source: AAA, Haver Analytics, The Hartford's Global Insights Center

Your Global Insights Center Team

Ben Wright
Head of Economic and Geopolitical Risk
San Francisco

Michael Wolf
Principal Economist
San Diego

Shehriyar Antia
Principal Economist
New York

David Kay
Senior Economist
Portland

Ashly Nyman
Associate Economist
New York

Cindy Papageorge
Senior Administrative Assistant
Hartford

Disclaimers

The information, views, opinions, and recommendations provided in these materials is intended to be general and advisory in nature. The Hartford is not providing investment advice, tax advice, legal advice, business advice, or other professional advice. The Hartford does not guarantee or warrant the accuracy, completeness or timeliness of, or otherwise endorse, the information, views, opinions, and recommendations provided in these materials. You should always seek the assistance of a professional for advice on investments, tax, business, the law, or other professional matters. © The Hartford 2025