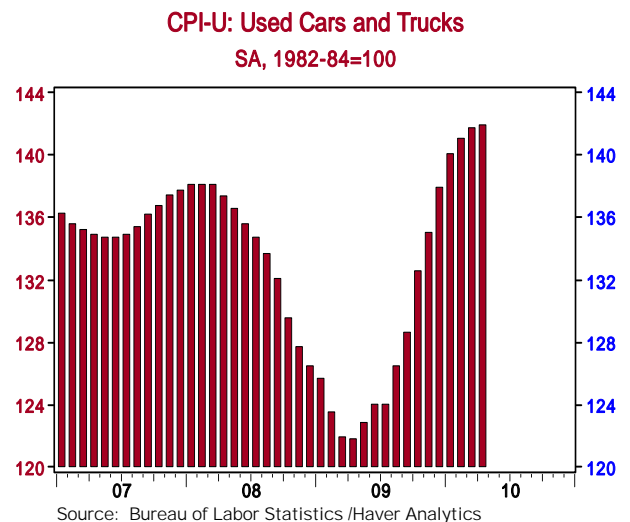
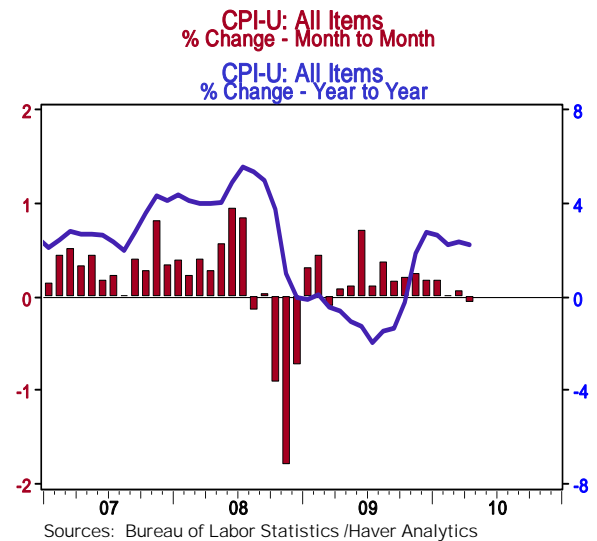


## APRIL CPI

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- The Consumer Price Index (CPI) decreased 0.1% in April, while the consensus expected a 0.1% increase. The CPI is up 2.2% versus a year ago.
- “Cash” inflation (which excludes the government’s estimate of what a homeowner would charge himself for rent) fell 0.1% in April and is up 3.0% in the past year.
- Energy prices fell 1.4% in April and made the largest contribution to the decrease in the overall CPI. Food prices increased 0.2%. Excluding food and energy, the “core” CPI was unchanged in April and is up 1.0% versus a year ago.
- Real average hourly earnings – the cash earnings of production workers, adjusted for inflation – rose 0.3% in April but are down 0.6% versus a year ago.

**Implications:** Because of falling energy prices, headline consumer prices continue to remain benign, but signs of future inflation are deeper inside today’s report. Inflation “doves” and some who even talk about deflation continue to focus on “core” prices (excluding food and energy) which are up only 1.0% versus a year ago. While these numbers are helpful in gauging inflation, they don’t show the entire picture. We think “cash” inflation better gauges the inflation consumers are experiencing. Cash inflation counts everything, including food and energy, but takes out “owners’ equivalent rent” or OER – the government’s arbitrary estimate of what homeowners would pay if they rented their own homes, and does not reflect an actual transaction. Excluding OER, consumer prices are up 3.0% versus a year ago versus a 2.2% increase when included. In other words, while inflation remains relatively low, the government estimate of housing prices is masking underlying inflation trends. With the Fed holding rates near zero, deflation is not in the cards, and inflation remains a threat.



CPI-U <i>All Data Seasonally Adjusted</i>	Apr-10	Mar-10	Feb-10	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Consumer Price Index</b>	-0.1%	0.1%	0.0%	0.0%	1.1%	2.2%
<i>Ex Food &amp; Energy</i>	0.0%	0.0%	0.1%	0.6%	0.3%	1.0%
<i>Ex Energy</i>	0.1%	0.1%	0.1%	0.8%	0.5%	0.9%
<b>Energy</b>	-1.4%	0.0%	-0.5%	-7.6%	7.7%	18.5%
<i>Food and Beverages</i>	0.2%	0.2%	0.0%	1.7%	1.8%	0.5%
<i>Housing</i>	-0.1%	0.0%	0.0%	-0.1%	-0.7%	-0.6%
<i>Owners Equivalent Rent</i>	0.0%	-0.1%	0.0%	-0.7%	-0.7%	-0.2%
<i>New Vehicles</i>	0.0%	0.1%	0.1%	0.8%	-0.1%	2.5%
<i>Medical Care</i>	0.2%	0.3%	0.5%	4.4%	4.1%	3.6%
<i>Services (Excluding Energy Services)</i>	0.2%	0.1%	0.1%	1.4%	0.4%	0.8%
<b>Real Average Hourly Earnings</b>	0.3%	-0.1%	0.1%	1.4%	0.5%	-0.6%

Source: U.S. Department of Labor