April CPI

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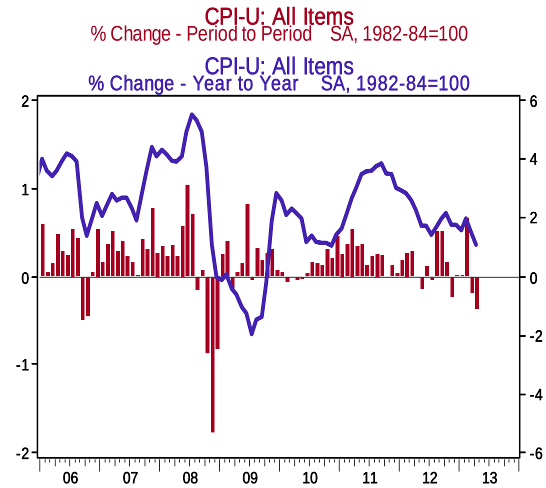
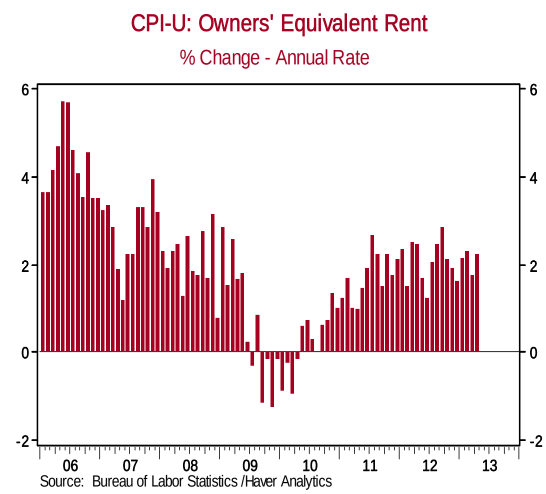
- The Consumer Price Index (CPI) declined 0.4% in April, coming in below consensus expectations of -0.3%. The CPI is up 1.1% versus a year ago.
- "Cash" inflation (which excludes the government's estimate of what homeowners would charge themselves for rent) was down 0.5% in March but is up 0.8% in the past year.
- The decline in the CPI in April was due to a 4.3% drop in energy prices. Food prices were up 0.2%. The "core" CPI, which excludes food and energy, was up 0.1% in April, coming in just below the consensus expected gain of 0.2%. Core prices are up 1.7% versus a year ago.
- Real average hourly earnings – the cash earnings of all employees, adjusted for inflation – were up 0.5% in April and are up 0.8% in the past year. Real *weekly* earnings are up 0.5% in the past year.





Implications: All remains quiet on the inflation front. Over the past three months, consumer prices are up at only a 0.5% annual rate and are up only 1.1% in the past year. The decline in CPI in April was due to energy prices, which are obviously volatile and which fell 4.3%. "Core" prices, which exclude food and energy, were up 0.1% in April and are up 1.7% from a year ago. Neither overall nor core price gains in the past year set off alarm bells. Instead, they suggest the Federal Reserve's preferred measure of inflation, the PCE deflator (which usually runs a ¼ point below the CPI) will remain below the Fed's target of 2% when that data comes out later this month. We don't expect this to last. Inflation is bottoming out right now and will be noticeably higher a year from now. However, for the Fed, the key measure of inflation is its own forecast of future inflation. So even if inflation goes to roughly 3% in 2014, as long as the Fed projects the rise to be temporary it will not react by raising short-term interest rates. The Fed is more focused on the labor market and, we believe, is willing to let inflation exceed its long-term target of 2% for a prolonged period of time in order to get the unemployment rate down. The best news in today's report was that "real" (inflation-adjusted) average hourly earnings rose 0.5% in April. In other news this morning, new claims for unemployment insurance increased 32,000 last week to 360,000. Continuing claims for regular state benefits dropped 4,000 to 3.01 million. These figures are consistent with continued payroll growth of about 150,000 jobs in May.

CPI - U *All Data Seasonally Adjusted*	Apr-13	Mar-13	Feb-13	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**-0.4%**	-0.2%	0.7%	0.5%	-0.1%	1.1%
Ex Food & Energy	**0.1%**	0.1%	0.2%	1.3%	1.6%	1.7%
Ex Energy	**0.1%**	0.1%	0.2%	1.3%	1.6%	1.7%
Energy	**-4.3%**	-2.6%	5.4%	-7.0%	-14.5%	-4.3%
Food and Beverages	**0.2%**	0.1%	0.1%	1.5%	1.6%	1.6%
Housing	**0.2%**	0.1%	0.2%	2.2%	2.3%	1.9%
Owners Equivalent Rent	**0.2%**	0.1%	0.2%	2.1%	2.0%	2.1%
New Vehicles	**0.3%**	0.1%	-0.3%	-0.1%	1.1%	1.2%
Medical Care	**0.0%**	0.3%	0.2%	1.7%	1.7%	2.7%
Services (Excluding Energy Services)	**0.1%**	0.2%	0.2%	2.0%	2.3%	2.3%
Real Average Hourly Earnings	**0.5%**	0.3%	-0.6%	0.8%	2.6%	0.8%

Source: U.S. Department of Labor