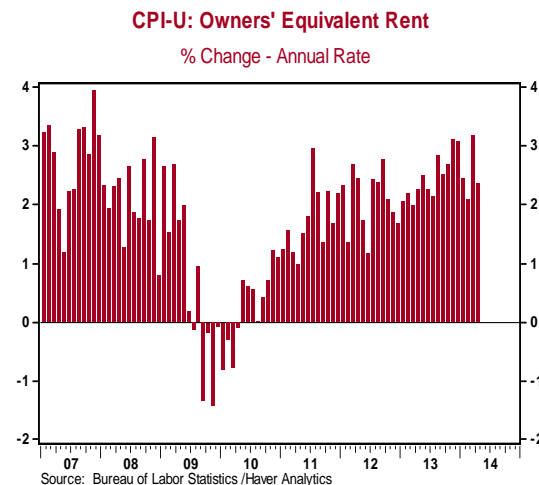
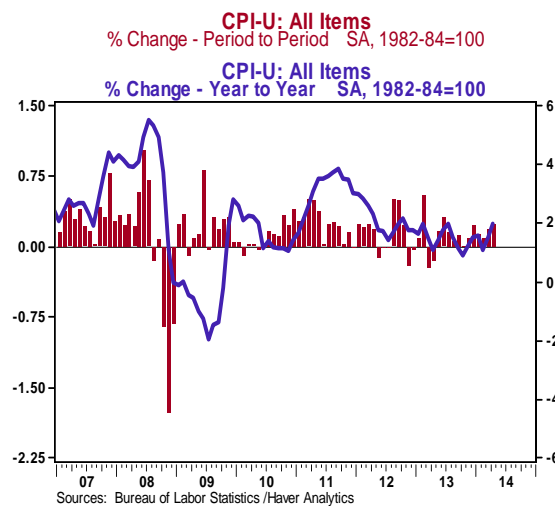


April CPI

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

- The Consumer Price Index (CPI) increased 0.3% in April, matching consensus expectations. The CPI is up 2.0% versus a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) rose 0.3% in April and is up 1.8% in the past year.
- Food prices increased 0.4% in April, while energy rose 0.3%. The “core” CPI, which excludes food and energy, increased 0.2%, above consensus expectations of 0.1%. The gain in core prices was led by shelter and core prices are up 1.8% versus a year ago.
- Real average hourly earnings – the cash earnings of all employees, adjusted for inflation – declined 0.3% in April, and are down 0.1% in the past year. Real *weekly* earnings are up 0.2% in the past year.

Implications: Consumer price inflation, up 0.3% in April, is starting to show signs of the loose monetary policy of the past several years. Although consumer prices are up a moderate 2% from a year ago, they’re up at a 2.3% annual rate in the past three months. The price gains in April were led by food and shelter costs and we expect this trend to continue. Droughts and unusually cold winter weather are pushing up prices for farm products. Meanwhile, owners’ equivalent rent (the government’s estimate of what homeowners would charge themselves for rent), which makes up about ¼ of the overall CPI, is up 2.6% from a year ago versus a 2.1% gain in the previous twelve months. This measure will be a key source of the acceleration in inflation in the year ahead, in large part fueled by a shift toward renting rather than owning. Lurking in the background, of course, is that monetary policy has been loose and is putting upward pressure on inflation. The Fed’s preferred measure of inflation, the PCE deflator, was up only 1.1% in the year that ended in March. But, given the increase in the CPI in April, we are now estimating that the PCE deflator will be up 1.6% from a year ago when that data arrives in two weeks, much closer to the Fed’s target of 2%. Inflation should hit that 2% target late this year or early next year, consistent with our view that the Fed starts raising short-term interest rates in the first half of 2015. In other news this morning, initial claims for unemployment insurance fell 24,000 last week to 297,000, the lowest level in seven years. Continuing claims declined 9,000 to 2.67 million. Plugging these figures into our payroll models puts our early forecast for May job gains at 198,000. The forecast will evolve over the next three week as we get more data, but it looks like another solid month for job growth.



CPI - U <i>All Data Seasonally Adjusted</i>	Apr-14	Mar-14	Feb-14	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.3%	0.2%	0.1%	2.3%	2.1%	2.0%
Ex Food & Energy	0.2%	0.2%	0.1%	2.3%	1.9%	1.8%
Ex Energy	0.3%	0.2%	0.2%	2.6%	2.1%	1.8%
Energy	0.3%	-0.1%	-0.5%	-1.3%	2.8%	3.3%
Food and Beverages	0.4%	0.4%	0.4%	4.5%	2.7%	1.8%
Housing	0.0%	0.4%	0.2%	2.5%	3.1%	2.5%
Owners Equivalent Rent	0.2%	0.3%	0.2%	2.6%	2.7%	2.6%
New Vehicles	0.3%	0.0%	0.1%	1.5%	0.0%	0.4%
Medical Care	0.3%	0.2%	0.3%	3.1%	2.2%	2.4%
Services (Excluding Energy Services)	0.3%	0.3%	0.2%	3.0%	2.8%	2.6%
Real Average Hourly Earnings	-0.3%	-0.1%	0.2%	-0.8%	-0.2%	-0.1%

Source: U.S. Department of Labor