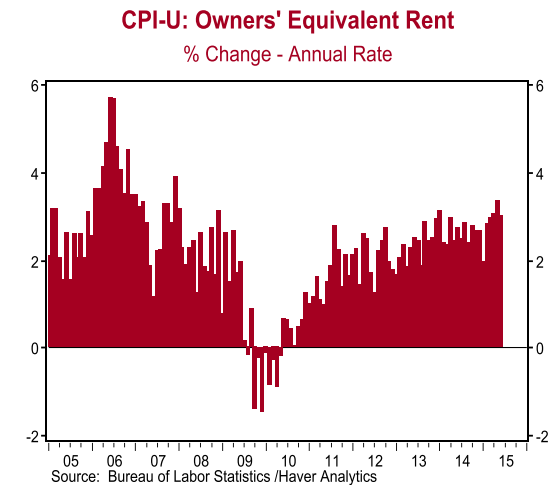
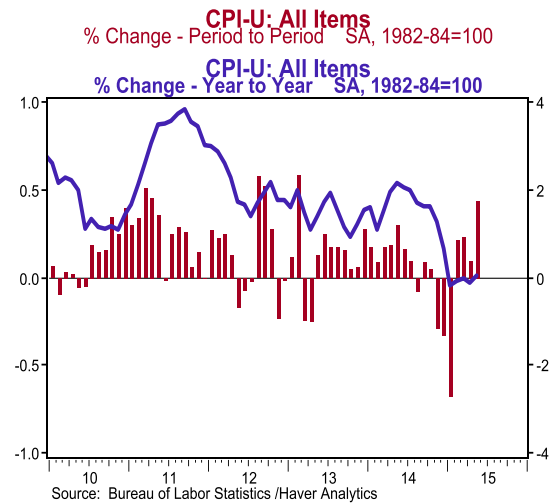


# May CPI

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- The Consumer Price Index (CPI) increased 0.4% in May, coming in slightly below consensus expectations of 0.5%. The CPI is unchanged from a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) rose 0.5% in May, but is down 0.8% in the past year.
- Energy prices rose 4.3% in May, while food prices were unchanged. The “core” CPI, which excludes food and energy, increased 0.1% in May, below the consensus expected 0.2%. Core prices are up 1.7% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – declined 0.1% in May, but are up 2.2% in the past year. Real *weekly* earnings are up 2.3% in the past year.

**Implications:** In the past four months the CPI has grown at a 3% annualized rate, the fastest pace since 2012. This is not just due to the recent (partial) rebound in energy prices: excluding the volatile food and energy sectors, the CPI is up at 2.4% annualized rate over the same period. Either way you look at it, the recent pace of inflation has been running above the Fed’s 2% target and could eventually put pressure on the Fed to raise rates faster than the market expects. Overall consumer prices rose 0.4% in May but are unchanged over the past twelve months. The lack of headline inflation in the past year is due to energy prices, which rose 4.3% in May but remain down 16.3% from a year ago. “Core” prices, which exclude food and energy, increased 0.1% in May, are up 1.7% in the past twelve months, 2.1% annualized in the last six months, and 2.4% annualized since January. In other words, core prices are gradually accelerating upward. With core prices so close to the Fed’s two percent inflation target, policymakers should remain concerned about future increases in inflation, even with overall consumer prices near zero. “Core” consumer prices in May were led higher by housing. Owners’ equivalent rent, which makes up about ¼ of the CPI, rose 0.3% in May, is up 2.8% in the past year, up at a 3.2% annual rate in the past three months, and will be a key source of higher inflation in the year ahead. Some analysts will use the fact that overall prices are flat from a year ago to warn about “Deflation.” But true deflation – of the kind we ought to be concerned about – is caused by overly tight monetary policy and price declines that are widespread, not isolated to one sector of the economy. Think of the Great Depression. On the earnings front, “real” (inflation-adjusted) average hourly earnings declined 0.1% in May, but are up a healthy 2.2% in the past year. In other news this morning, initial claims for unemployment insurance fell 12,000 last week to 267,000, the 15th straight week below 300,000. Continuing claims for regular state benefits dropped 50,000 to 2.22 million. These figures are consistent with payroll growth of about 230,000 in June. Meanwhile, the Philadelphia Fed index, a measure of strength in East Coast manufacturing, jumped to 15.2 in June, the highest so far this year, from 6.7 in May, supporting the case that the economy is reaccelerating after temporary headwinds in the first quarter.



<b>CPI - U</b>	<b>May-15</b>	<b>Apr-15</b>	<b>Mar-15</b>	<b>3-mo % Ch.</b>	<b>6-mo % Ch.</b>	<b>Yr to Yr</b>
<i>All Data Seasonally Adjusted Except for Yr to Yr</i>				<i>annualized</i>	<i>annualized</i>	<i>% Change</i>
<b>Consumer Price Index</b>	<b>0.4%</b>	0.1%	0.2%	3.2%	0.0%	0.0%
<b>Ex Food &amp; Energy</b>	<b>0.1%</b>	0.3%	0.2%	2.5%	2.1%	1.7%
<b>Ex Energy</b>	<b>0.1%</b>	0.2%	0.2%	2.0%	1.8%	1.7%
<b>Energy</b>	<b>4.3%</b>	-1.3%	1.1%	17.9%	-18.0%	-16.3%
<b>Food and Beverages</b>	<b>0.0%</b>	0.0%	-0.2%	-0.7%	0.3%	1.6%
<b>Housing</b>	<b>0.0%</b>	0.2%	0.1%	1.4%	1.7%	1.9%
<b>Owners Equivalent Rent</b>	<b>0.3%</b>	0.3%	0.3%	3.2%	2.9%	2.8%
<b>New Vehicles</b>	<b>0.2%</b>	0.1%	0.2%	2.1%	1.1%	0.8%
<b>Medical Care</b>	<b>0.2%</b>	0.7%	0.3%	5.0%	3.4%	2.8%
<b>Services (Excluding Energy Services)</b>	<b>0.2%</b>	0.3%	0.2%	3.1%	2.7%	2.4%
<b>Real Average Hourly Earnings</b>	<b>-0.1%</b>	0.0%	0.0%	-0.4%	2.3%	2.2%

Source: U.S. Department of Labor

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