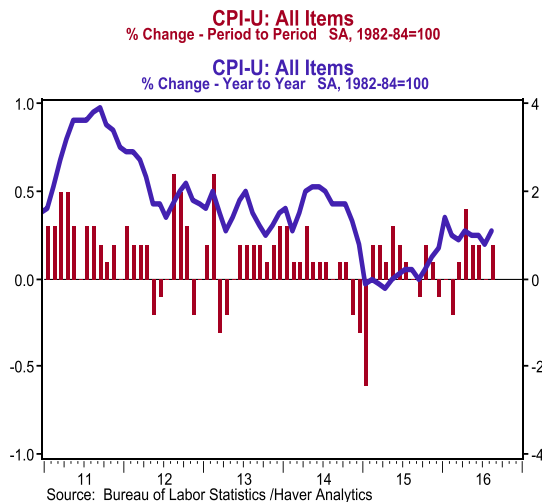


August CPI

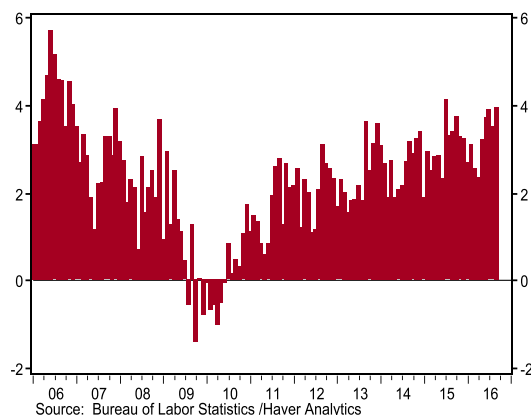
Brian S. Wesbury – Chief Economist
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Strider Elass – Economist

- The Consumer Price Index (CPI) increased 0.2% in August, coming in above the consensus expected rise of 0.1%. The CPI is up 1.1% from a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) rose 0.2% in August and is up 0.4% in the past year.
- Energy and food prices were both unchanged in August. The “core” CPI, which excludes food and energy, increased 0.3% in August, coming in above the consensus expected rise of 0.2%. Core prices are up 2.3% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – declined 0.1% in August but are up 1.3% in the past year. Real weekly earnings are up 0.4% in the past year.

Implications: Today’s report of a 0.2% increase in consumer prices gives the Fed about as clean a look at the state of inflation as they could ask for heading into next week’s meetings. The normally volatile food and energy components were both unchanged in August, but “core” consumer prices, which exclude those two components, rose 0.3%, the most in six months, and are now up 2.3% from a year ago. Food prices are up just 0.1% in the past year. Energy, which has been the key factor keeping the headline measure of inflation subdued, is down 9.2% in the past year. While the overall consumer price index has shown a modest 1.1% rise from a year ago, prices are up 2% in the past year excluding just energy. Notice that as oil prices have rebounded off the February low, the pace of overall inflation has followed step, with consumer prices rising at a 2.2% annualized rate in the past six months. The August rise in consumer prices was led by housing and medical care. Owners’ equivalent rent, which makes up about ¼ of the CPI, rose 0.3% in August, is up 3.3% in the past year, and will be a key source of higher inflation in the year ahead. Medical care costs rose 1% in August, the most for any month since the 1980s. Hospital service prices rose 1.7% while prescription drug prices increased 1.3%. The worst piece of news from today’s report was that “real” (inflation-adjusted) average hourly earnings declined 0.1% in August. Real wages are up a respectable 1.3% in the past year and we think wages will generally rise faster than prices in the year ahead as employment keeps growing at a healthy clip. At the end of the day - given a consistent pace of “core” inflation above 2%, continued employment gains, and an acceleration in the headline consumer price index – you may think a green light for the Fed to raise rates at next week’s meeting is a given, but the squeamish Fed has proven less and less “data dependent” with each passing month. As a result, expect the Fed to kick the rate-hike can down the road, probably to December.



CPI-U: Owners' Equivalent Rent of Residences
 % Change - Annual Rate



CPI - U <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Aug-16	Jul-16	Jun-16	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.2%	0.0%	0.2%	1.5%	2.2%	1.1%
Ex Food & Energy	0.3%	0.1%	0.2%	2.1%	2.0%	2.3%
Ex Energy	0.2%	0.1%	0.1%	1.7%	1.6%	2.0%
Energy	0.0%	-1.6%	1.3%	-1.1%	11.2%	-9.2%
Food and Beverages	0.0%	0.0%	-0.1%	-0.3%	-0.6%	0.1%
Housing	0.3%	0.3%	0.2%	3.3%	2.9%	2.6%
Owners Equivalent Rent	0.3%	0.3%	0.3%	3.7%	3.6%	3.3%
New Vehicles	0.0%	0.2%	-0.2%	0.3%	-0.8%	0.0%
Medical Care	1.0%	0.5%	0.4%	7.8%	5.4%	4.9%
Services (Excluding Energy Services)	0.3%	0.2%	0.3%	3.1%	3.2%	3.2%
Real Average Hourly Earnings	-0.1%	0.4%	-0.1%	0.8%	0.6%	1.3%

Source: U.S. Department of Labor