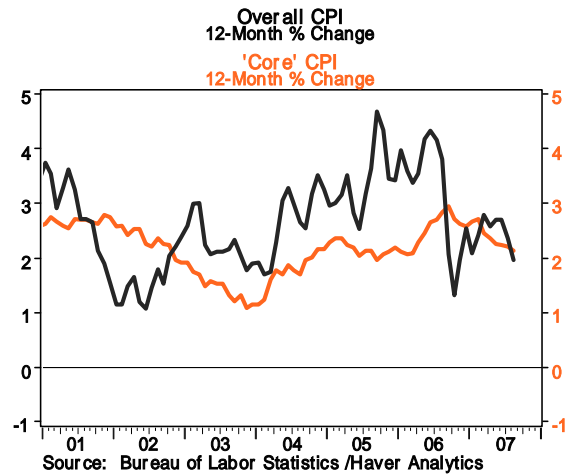


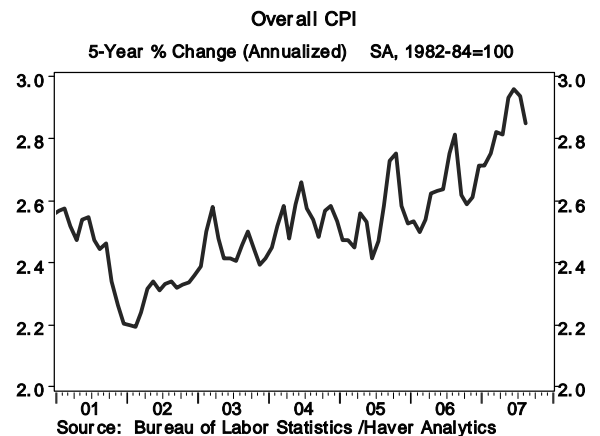
## AUGUST CPI

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- The Consumer Price Index (CPI) declined 0.1% in August versus consensus expectations that it would be unchanged. The CPI is up 2.0% versus a year ago.
- Energy prices declined 3.2% in August. Food and beverage prices increased 0.4%. Excluding food and energy, the core CPI was up 0.2% in August, just as the consensus expected. The core CPI is up 2.1% versus a year ago. Excluding just energy, the CPI was also up 0.2% for the month
- Real average hourly earnings – the cash earnings of production workers – increased 0.5% in August, and are up 4.4% at an annual rate in the past six months. Strong earnings growth should reduce fears of a consumer spending slowdown.



**Implications:** The consumer price index fell in August, but don't start blowing the deflation horns yet. Energy prices were the culprit, just as they were when the CPI had a negative reading ten months ago. This drop will be sharply reversed in September just like it was last time. Moreover, consumer prices are up at a 3.8% annual rate in the past six months and the year-to-year change in the CPI, now 2%, will be heading up to the 3.5% to 4% range in the next several months as the comparison months from last year become less favorable. The chart to the right on the five-year trend in inflation puts the August data in perspective. There have been downswings before (even larger ones than the most recent one!) but the underlying upward trend has consistently reasserted itself. Meanwhile, the drop in August CPI inflation will boost real (inflation-adjusted) consumption to about 2.5% in the third quarter, which will help hold up real GDP growth. Robust gains in hourly earnings are maintaining consumer purchasing power.



<b>CPI - U</b> <i>All Data Seasonally Adjusted</i>	<b>Aug-07</b>	<b>Jul-07</b>	<b>Jun-07</b>	<b>3-mo % Ch.</b> <b>annualized</b>	<b>6-mo % Ch.</b> <b>annualized</b>	<b>Yr to Yr</b> <b>% Change</b>
<b>Consumer Price Index</b>	<b>-0.1%</b>	0.1%	0.2%	0.7%	3.8%	2.0%
<b>Ex Food &amp; Energy</b>	<b>0.2%</b>	0.2%	0.2%	2.5%	2.0%	2.1%
<b>Ex Energy</b>	<b>0.2%</b>	0.2%	0.3%	2.8%	2.4%	2.4%
<b>Energy</b>	<b>-3.2%</b>	-1.0%	-0.5%	-17.5%	18.8%	-2.5%
<b>Food and Beverages</b>	<b>0.4%</b>	0.3%	0.5%	4.6%	4.4%	4.2%
<b>Housing</b>	<b>0.0%</b>	0.2%	0.3%	2.0%	2.2%	2.9%
<b>Owners Equivalent Rent</b>	<b>0.2%</b>	0.2%	0.2%	2.4%	2.3%	3.0%
<b>New Vehicles</b>	<b>0.1%</b>	0.0%	0.0%	0.5%	0.4%	-0.9%
<b>Medical Care</b>	<b>0.5%</b>	0.6%	0.2%	5.6%	4.4%	4.5%
<b>Services (Excluding Energy Services)</b>	<b>0.2%</b>	0.3%	0.3%	3.4%	3.0%	3.2%
<b>Real Average Hourly Earnings</b>	<b>0.5%</b>	0.2%	0.4%	4.4%	-0.2%	2.2%

Source: U.S. Department of Labor