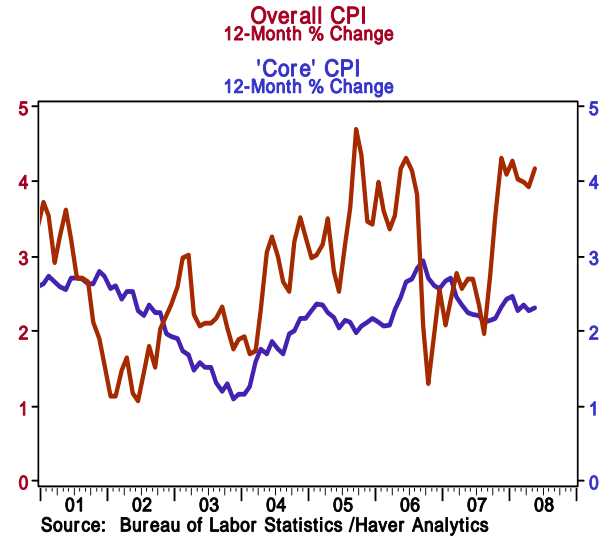


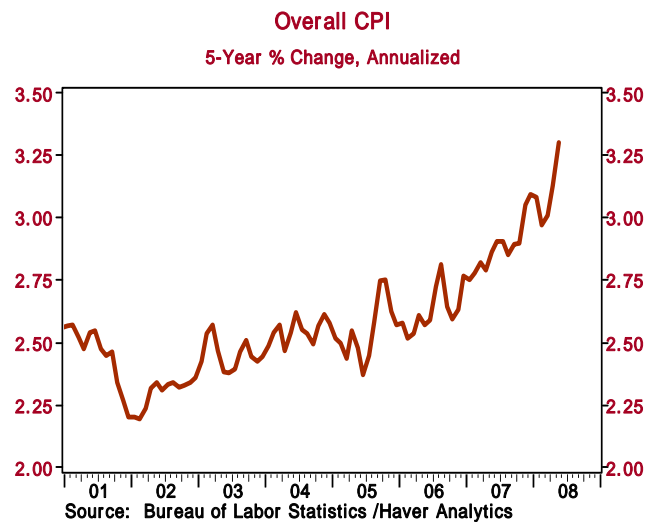
# MAY CPI

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- The Consumer Price Index (CPI) increased 0.6% in May (0.6498% unrounded) versus a consensus expected rise of 0.5%. The CPI is up 4.2% versus a year ago.
- Most of the increase in the CPI was due to energy prices, which increased 4.4% in May and are up 17.4% versus last year. Food and beverage prices were up 0.3% in May and are up 5.0% versus a year ago.
- Excluding food and energy, the “core” CPI was up 0.2% in May and is up 2.3% versus a year ago. Excluding just energy, the CPI was up 0.2% in May and is up 2.7% versus a year ago.
- Real average hourly earnings – the cash earnings of production workers – were down 0.4% in May and are down 0.8% versus a year ago.



**Implications:** Inflation, not slow growth, is the primary threat to the US economy. The CPI is up 4.2% versus a year ago and up at a 4.9% annual rate in the past three months. Some analysts continue to minimize the threat of higher inflation by focusing on the “core” CPI, which excludes food and energy prices and is up only 2.3% versus a year ago. Focusing on the core makes sense when energy and food prices are volatile both up and down. In that case, core inflation helps *reveal* the underlying trend. But in the past six years almost all the volatility has been to the upside. In this situation, focusing on the core *hides* the underlying trend. The reason overall inflation is a problem is that the Federal Reserve has been too loose. Once energy and food prices stop rising as quickly, core inflation will accelerate. As the chart to the right shows, the long-term (5-year) trend in inflation remains upward. At 3.3%, the 5-year trend is the highest since 1995.



CPI - U <i>All Data Seasonally Adjusted</i>	May-08	Apr-08	Mar-08	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Consumer Price Index</b>	<b>0.6%</b>	0.2%	0.3%	4.9%	4.0%	4.2%
<i>Ex Food &amp; Energy</i>	<b>0.2%</b>	0.1%	0.2%	1.8%	2.1%	2.3%
<i>Ex Energy</i>	<b>0.2%</b>	0.2%	0.2%	2.5%	2.6%	2.7%
<b>Energy</b>	<b>4.4%</b>	0.0%	1.9%	28.2%	17.5%	17.4%
<b>Food and Beverages</b>	<b>0.3%</b>	0.9%	0.2%	5.9%	5.2%	5.0%
<b>Housing</b>	<b>0.5%</b>	0.3%	0.4%	4.9%	3.8%	3.3%
<b>Owners Equivalent Rent</b>	<b>0.1%</b>	0.2%	0.2%	2.0%	2.3%	2.6%
<b>New Vehicles</b>	<b>-0.1%</b>	-0.2%	-0.1%	-1.5%	-2.0%	-1.2%
<b>Medical Care</b>	<b>0.2%</b>	0.2%	0.1%	1.8%	2.8%	4.1%
<b>Services (Excluding Energy Services)</b>	<b>0.3%</b>	0.1%	0.2%	2.9%	3.0%	3.2%
<b>Real Average Hourly Earnings</b>	<b>-0.4%</b>	-0.1%	-0.1%	-2.4%	-0.7%	-0.8%

Source: U.S. Department of Labor