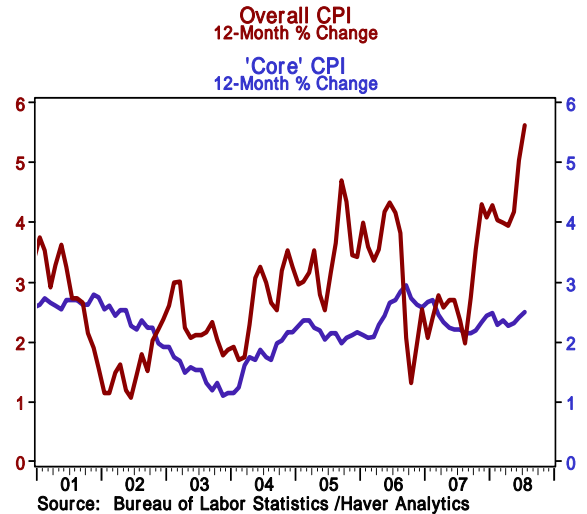


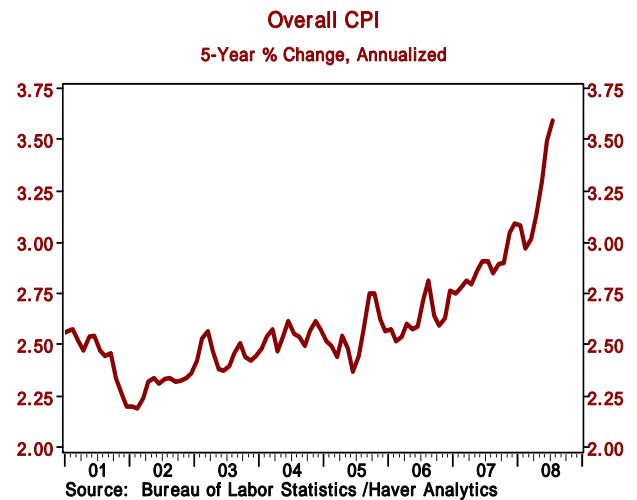
JULY CPI

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- The Consumer Price Index (CPI) increased 0.8% in July versus a consensus expected rise of 0.4%. The CPI is up 5.6% versus a year ago, the highest since 1991.
- About half the increase in the CPI was due to energy prices, which increased 4.0% in July and are up 29.3% versus last year. Food and beverage prices were up 0.9% in July and are up 5.8% versus a year ago.
- Excluding food and energy, the “core” CPI was up 0.3% in July and is up 2.5% versus a year ago. Excluding just energy, the CPI was up 0.4% in July and is up 3.0% versus a year ago.
- Real average hourly earnings – the cash earnings of production workers – were down 0.6% in July and are down 2.5% versus a year ago.



Implications: Inflation is the leading menace to the US economy. Consumer prices increased 0.8% in July, twice the (already elevated) consensus expectation of 0.4%. The CPI is now up 5.6% versus last year, the most since 1991. Excluding the 1990-91 period – when oil prices soared in part due to Iraq’s invasion of Kuwait – CPI inflation is the highest since 1982. Meanwhile, the “core” CPI is speeding up, increasing 0.3% in July and up at a 3.5% annual rate in the past three months. We expect further acceleration in the core CPI in the year ahead as the drop in oil prices gives consumers more money to spend on other goods and services. As the chart to the right shows, the long-term (5-year) trend in inflation is sharply upward. At 3.6%, the trend is the highest since 1994. In other news this morning, initial claims for unemployment insurance dropped 10,000 to 450,000 last week. Continuing claims surged 114,000 to 3.417 million. Normally, this data on jobless claims would signal a very weak economy, possibly a recession. However, recent federal legislation extending the duration of unemployment benefits has temporarily tainted the relationship between claims and economic growth.



CPI - U <i>All Data Seasonally Adjusted</i>	Jul-08	Jun-08	May-08	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.8%	1.1%	0.6%	10.6%	6.4%	5.6%
Ex Food & Energy	0.3%	0.3%	0.2%	3.5%	2.3%	2.5%
Ex Energy	0.4%	0.4%	0.2%	4.2%	3.1%	3.0%
Energy	4.0%	6.6%	4.4%	79.4%	37.7%	29.3%
Food and Beverages	0.9%	0.7%	0.3%	8.0%	7.0%	5.8%
Housing	0.6%	0.5%	0.5%	6.5%	5.1%	3.9%
Owners Equivalent Rent	0.1%	0.3%	0.1%	1.8%	2.1%	2.6%
New Vehicles	0.2%	0.2%	-0.1%	1.6%	-0.4%	-0.8%
Medical Care	0.1%	0.2%	0.2%	1.8%	1.7%	3.5%
Services (Excluding Energy Services)	0.3%	0.4%	0.3%	4.1%	3.0%	3.3%
Real Average Hourly Earnings	-0.6%	-0.8%	-0.4%	-7.1%	-3.4%	-2.5%

Source: U.S. Department of Labor