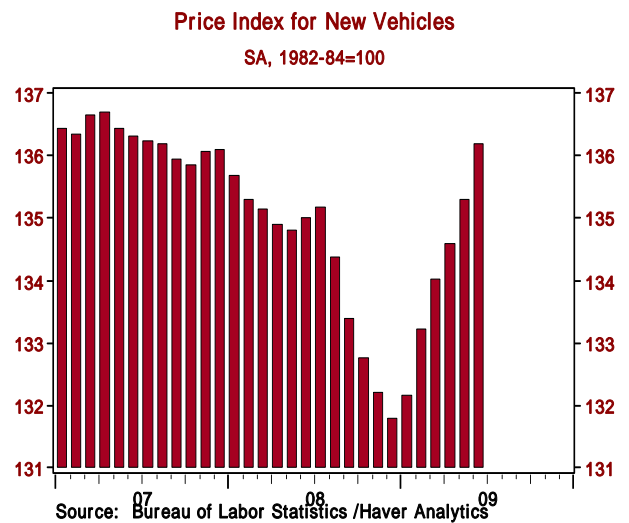
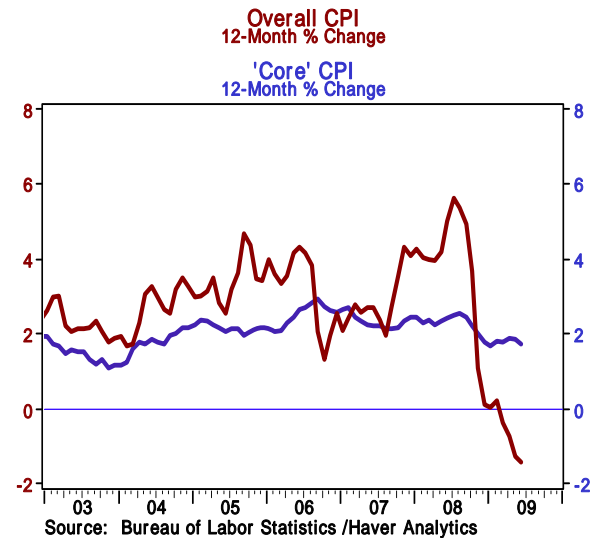


# JUNE CPI

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- The Consumer Price Index (CPI) increased 0.7% in June versus a consensus expected gain of 0.6%. The CPI is down 1.4% versus a year ago but up at a 3.3% annual rate in the past three months.
- Energy prices increased 7.4% in June, while food prices were unchanged.
- Excluding food and energy, the “core” CPI was up 0.2% in June and is up at a 2.4% annual rate in the past three months. The largest contributions to the core CPI in June came from new and used vehicles, recreation, and clothes.
- Real average hourly earnings – the cash earnings of production workers, adjusted for inflation – were down 0.9% in June but are up 4.5% versus a year ago.

**Implications:** Consumer price inflation is starting to materialize, the result of incredibly loose monetary policy by the Federal Reserve. The monthly readings on consumer inflation will not always be moving up from this point forward, but the underlying trend will continue to be upward. Although some analysts still dwell on the fact that consumer prices are lower than they were a year ago, this story is growing increasingly stale and misleading. Consumer prices fell at a 5% annual rate in the last half of 2008, the fastest 6-month drop since the Great Depression. In the first half of 2009, prices were up at a 2.7% annual rate, with higher readings likely for the second half of the year. Meanwhile, in the labor market, real (inflation-adjusted) average hourly earnings are up 4.5% in the past year. Even factoring-in the decline in the number of hours worked per week, real earnings are up 2.6% versus last year. Higher cash earnings versus last year, plus the realization that the peak in unemployment is not far away, will help support consumer demand even as some job losses continue.



CPI - U <i>All Data Seasonally Adjusted</i>	Jun-09	May-09	Apr-09	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Consumer Price Index</b>	<b>0.7%</b>	0.1%	0.0%	3.3%	2.7%	-1.4%
<b>Ex Food &amp; Energy</b>	<b>0.2%</b>	0.1%	0.3%	2.4%	2.3%	1.7%
<b>Ex Energy</b>	<b>0.2%</b>	0.1%	0.2%	1.8%	1.7%	1.8%
<b>Energy</b>	<b>7.4%</b>	0.2%	-2.4%	22.1%	14.8%	-25.5%
<b>Food and Beverages</b>	<b>0.1%</b>	-0.2%	-0.2%	-1.3%	-1.0%	2.2%
<b>Housing</b>	<b>0.0%</b>	-0.1%	-0.1%	-0.6%	-0.6%	0.1%
<b>Owners Equivalent Rent</b>	<b>0.1%</b>	0.1%	0.1%	1.4%	1.9%	1.9%
<b>New Vehicles</b>	<b>0.7%</b>	0.5%	0.4%	6.6%	6.8%	0.9%
<b>Medical Care</b>	<b>0.2%</b>	0.3%	0.4%	3.6%	3.8%	3.2%
<b>Services (Excluding Energy Services)</b>	<b>0.1%</b>	0.1%	0.2%	1.8%	1.7%	1.8%
<b>Real Average Hourly Earnings</b>	<b>-0.9%</b>	0.0%	0.1%	-3.2%	-1.8%	4.5%

Source: U.S. Department of Labor