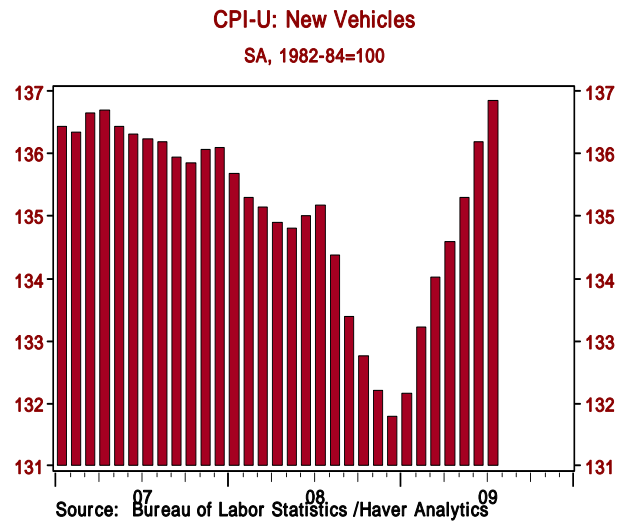
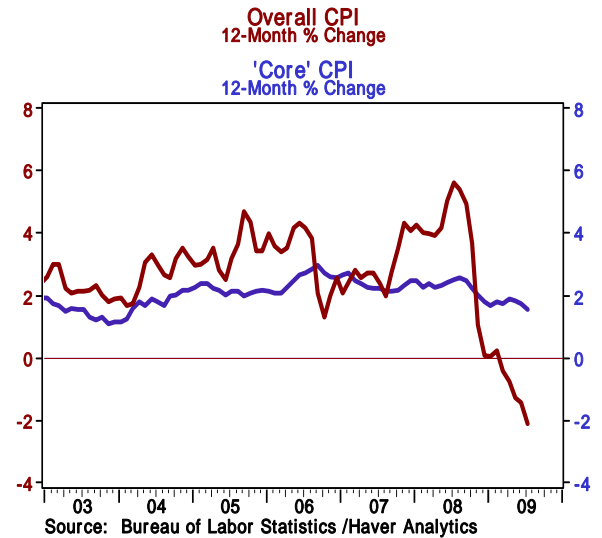


JULY CPI

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- The Consumer Price Index (CPI) was unchanged in July, as the consensus expected. The CPI is down 13.0% versus a year ago but is up versus two months ago, the first such gain since at a 3.4% annual rate in the past three months.
- Energy and food prices both declined in July, by 0.4% and 0.2%, respectively.
- Excluding food and energy, the “core” CPI was up 0.1% in July and is up at a 1.7% annual rate in the past three months. The largest contributions to the core CPI in July came from new vehicles and tobacco.
- Real average hourly earnings – the cash earnings of production workers, adjusted for inflation – were up 0.1% in July but are up 5.1% versus a year ago.

Implications: After spiking up 0.7% in June, consumer price inflation took a month off in July, as commodity prices temporarily fell. However, oil prices have bounced back in August, suggesting the respite from higher inflation is already over. Although consumer prices are down 2.1% versus a year ago – the largest drop in 60 years – this story is 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 last three months, consumer prices are up at a 3.4% annual rate. This 3.4% pace, not the -2.1% in the past year, will closely resemble what consumers experience over the *next* twelve months. Meanwhile, in the labor market, due to the drop in consumer prices versus last year, real (inflation-adjusted) average hourly earnings are up 5.1% in the past twelve months, the largest gain on record going back to the 1960s. Even factoring-in the decline in the number of hours worked per week, real earnings are up 3.5% versus last year. However, with the Fed incredibly loose, higher inflation will eventually weaken the gain in real wages even as the economic recovery picks up steam.



CPI - U <i>All Data Seasonally Adjusted</i>	Jul-09	Jun-09	May-09	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.0%	0.7%	0.1%	3.4%	2.2%	-2.1%
Ex Food & Energy	0.1%	0.2%	0.1%	1.7%	2.1%	1.5%
Ex Energy	0.0%	0.2%	0.1%	1.2%	1.5%	1.4%
Energy	-0.4%	7.4%	0.2%	32.5%	10.1%	-28.1%
Food and Beverages	-0.2%	0.1%	-0.2%	-1.4%	-1.5%	1.1%
Housing	-0.2%	0.0%	-0.1%	-1.0%	-0.9%	-0.7%
Owners Equivalent Rent	0.0%	0.1%	0.1%	0.7%	1.4%	1.7%
New Vehicles	0.5%	0.7%	0.5%	6.8%	7.2%	1.2%
Medical Care	0.2%	0.2%	0.3%	2.8%	3.2%	3.2%
Services (Excluding Energy Services)	0.0%	0.1%	0.1%	1.3%	1.3%	1.6%
Real Average Hourly Earnings	0.1%	-0.9%	0.0%	-3.2%	-1.4%	5.1%

Source: U.S. Department of Labor