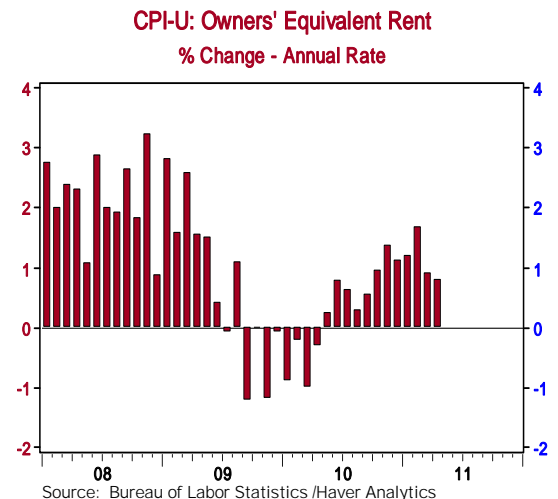
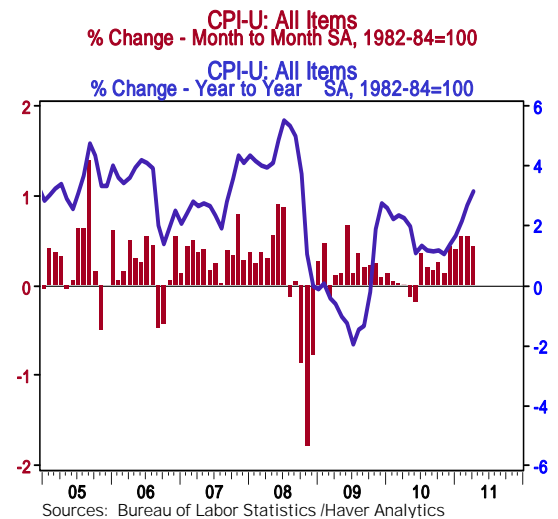


APRIL CPI

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- The Consumer Price Index (CPI) increased 0.4% in April, matching consensus expectations. The CPI is up 3.2% versus a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) was up 0.5% in April and is up 3.8% in the past year.
- About half of the increase in the CPI in April was due to energy, which rose 2.2%. Food prices were up 0.4%. Excluding food and energy, the “core” CPI increased 0.2%, matching consensus expectations. Core prices are up 1.3% versus last year.
- Real average hourly earnings – the cash earnings of all employees, adjusted for inflation – fell 0.3% in April and are down 1.2% in the past year. Real *weekly* earnings are down 0.6% in the past year.

Implications: The price inflation that has been evident at the producer level for some time has clearly made its way to the consumer. The CPI is up 3.2% in the past year and is accelerating. In the past six months, the CPI is up at a 5.1% annual rate and an even stronger 6.2% rate in the past three months. We like to follow “cash inflation,” which is everything in the CPI (including food and energy) but without owners’ equivalent rent (the government’s estimate of what homeowners would pay if they rented their own homes). Cash inflation increased 0.5% in April and is up at a 7.8% annual rate in the past three months. While these increases have been led by energy, which is up at a 42.8% annual rate in the past three months, the “core” CPI (which excludes food and energy) is also accelerating. Core prices are up only 1.3% versus a year ago, but up at a 2.1% annual rate in the past three months. Rising inflation is a concern *now*, but we fully expect the Federal Reserve to continue to justify keeping short-term interest rates near zero – through around the middle of next year – by saying that it’s “transitory.”



CPI - U <i>All Data Seasonally Adjusted</i>	Apr-11	Mar-11	Feb-11	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.4%	0.5%	0.5%	6.2%	5.1%	3.2%
<i>Ex Food & Energy</i>	0.2%	0.1%	0.2%	2.1%	1.8%	1.3%
<i>Ex Energy</i>	0.2%	0.2%	0.3%	2.9%	2.3%	1.6%
Energy	2.2%	3.5%	3.4%	42.8%	35.0%	19.0%
Food and Beverages	0.4%	0.7%	0.5%	6.9%	5.0%	3.1%
Housing	0.2%	0.1%	0.3%	2.2%	1.7%	1.0%
<i>Owners Equivalent Rent</i>	0.1%	0.1%	0.1%	1.1%	1.2%	0.9%
New Vehicles	0.7%	0.7%	1.0%	10.1%	4.1%	2.4%
Medical Care	0.4%	0.2%	0.4%	4.1%	3.0%	2.9%
Services (Excluding Energy Services)	0.1%	0.2%	0.2%	2.0%	1.9%	1.6%
Real Average Hourly Earnings	-0.3%	-0.3%	-0.5%	-4.2%	-3.2%	-1.2%

Source: U.S. Department of Labor