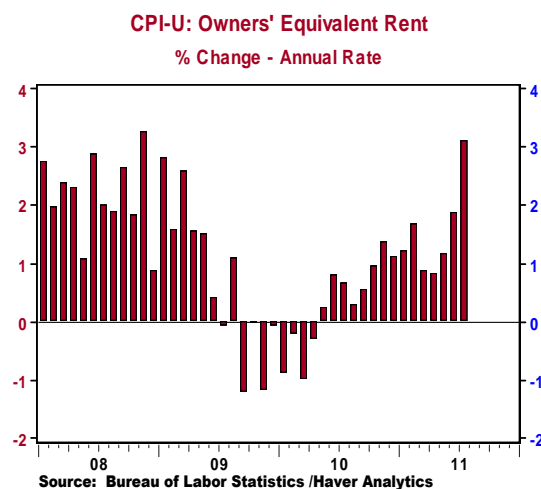
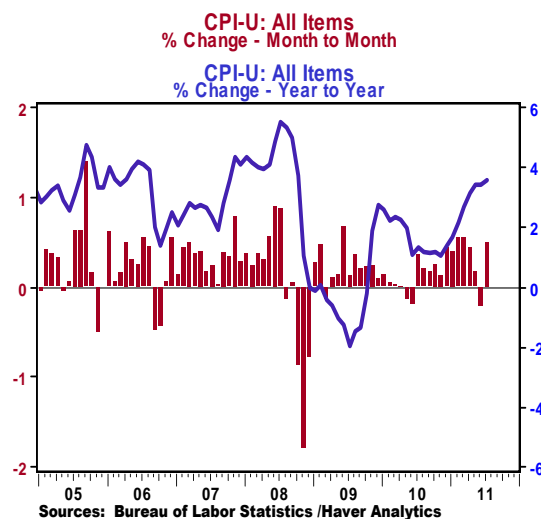


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July CPI

- The Consumer Price Index (CPI) rose 0.5% in July versus a consensus expected increase of 0.2%. The CPI is up 3.6% versus a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) was up 0.6% in July and is up 4.3% in the past year.
- The increase in the CPI was mostly due to a 2.8% rise in energy prices. Food prices were up 0.4%. Excluding food and energy, the “core” CPI increased 0.2%, matching consensus expectations. Core prices are up 1.8% versus last year.
- Real average hourly earnings – the cash earnings of all employees, adjusted for inflation – fell 0.1% in July and are down 1.3% in the past year. Real *weekly* earnings are down 1.0% in the past year.

Implications: The Consumer Price Index roared ahead 0.5% in July, handily beating consensus estimates. While most of the increase was due to energy, which rose 2.8% for the month, it’s important to note that nearly all other major categories rose as well. “Cash” inflation, which excludes the government’s estimate of what homeowners would pay themselves in rent, rose 0.6% in July, the most since November 2008. This measure of inflation is up 4.3% in the past year. “Core” inflation (which excludes food and energy) rose 0.2%, matching expectations, and is accelerating. Over the past year, core prices are up 1.8%, but in the past six months, prices are up at a 2.6% annual rate and an even faster 3.1% rate in the last three months. This is not welcome news for Fed officials who are trying to justify QE3. Some say rising inflation is caused by “temporary factors” and will dissipate. But they can’t explain what caused the temporary factors in the first place. We believe their hopes of fading inflation will be dashed. In other news this morning, new claims for unemployment benefits rose 9,000 last week to 408,000. The four-week moving average fell to 403,000 versus 440,000 in May. Continuing claims for regular state benefits increased 14,000 to 3.70 million. We are closely watching high-frequency indicators like this to see if there is a sharp downturn in economic activity. Today’s jobless claims numbers don’t indicate there is one.



| CPI - U <i>All Data Seasonally Adjusted</i> | Jul-11 | Jun-11 | May-11 | 3-mo % Ch. annualized | 6-mo % Ch. annualized | Yr to Yr % Change |
|--|--------|--------|--------|--------------------------|--------------------------|----------------------|
| Consumer Price Index | 0.5% | -0.2% | 0.2% | 1.8% | 4.0% | 3.6% |
| <i>Ex Food & Energy</i> | 0.2% | 0.3% | 0.3% | 3.1% | 2.6% | 1.8% |
| <i>Ex Energy</i> | 0.3% | 0.2% | 0.3% | 3.2% | 3.1% | 2.1% |
| Energy | 2.8% | -4.4% | -1.0% | -10.4% | 13.1% | 19.0% |
| Food and Beverages | 0.4% | 0.2% | 0.4% | 3.8% | 5.3% | 4.0% |
| Housing | 0.2% | 0.1% | 0.2% | 2.0% | 2.1% | 1.5% |
| <i>Owners Equivalent Rent</i> | 0.3% | 0.2% | 0.1% | 2.0% | 1.6% | 1.2% |
| New Vehicles | 0.0% | 0.6% | 1.1% | 7.1% | 8.6% | 4.0% |
| Medical Care | 0.2% | 0.2% | 0.2% | 2.7% | 3.4% | 3.2% |
| Services (Excluding Energy Services) | 0.2% | 0.1% | 0.2% | 2.2% | 2.1% | 1.7% |
| Real Average Hourly Earnings | -0.1% | 0.3% | 0.2% | 1.6% | -1.5% | -1.3% |

Source: U.S. Department of Labor