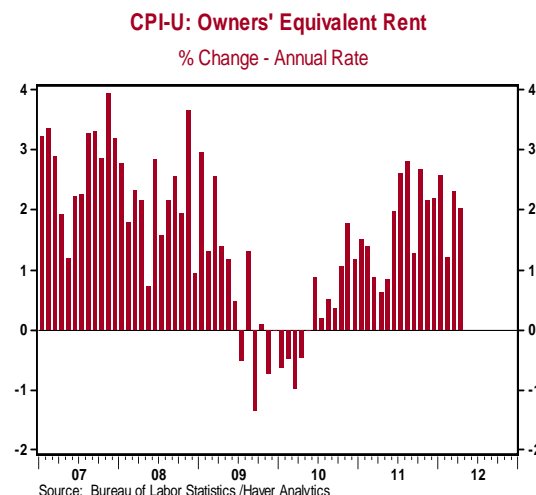
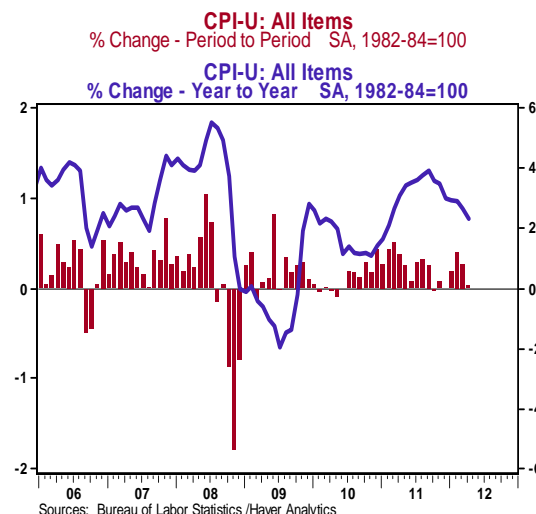


# April CPI

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- The Consumer Price Index (CPI) was unchanged in April exactly as the consensus expected. The CPI is up 2.3% versus a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) was also flat in April, but is up 2.4% in the past year.
- The CPI was unchanged in April due to a 1.7% drop in energy, which offset widespread gains in all other major categories. The “core” CPI, which excludes food and energy, was up 0.2%, matching consensus expectations, and is up 2.3% versus last year.
- Real average hourly earnings – the cash earnings of all employees, adjusted for inflation – were also unchanged in April and are down 0.5% in the past year. Real *weekly* earnings are down 0.2% in the past year.

**Implications:** Consumer prices were unchanged in April, exactly as the consensus expected. However, the lack of change in overall prices masked more worrisome details in the report. Energy prices fell 1.7% in April, reflecting what we all saw when we went to gas stations last month. But excluding energy, prices were up across the board. “Core” inflation, which excludes food and energy, was up 0.2% in April and is up 2.3% from a year ago, the largest gain since September 2008. This is already above the Federal Reserve’s target of 2%. Meanwhile, monetary policy is very loose and housing costs (which are measured by rents, not asset values) are rising. Owners’ equivalent rent was up 0.2% in April and is up 2.1% versus a year ago. The ongoing shift from home ownership toward rental occupancy should boost this inflation measure even more in the year ahead. With loose monetary policy and housing costs accelerating, it’s hard to see core inflation getting back down to the Fed’s 2% target anytime soon. On the earnings front, “real” (inflation-adjusted) wages per hour were flat in April. Although these earnings are down 0.5% from a year ago, the number of hours worked is up 2.1%, giving consumers more purchasing power. In other news this morning, the Empire State index, a measure of manufacturing in New York, increased to +17.1 in May from +6.6 in April, easily beating the consensus expected gain to +9.0. In other words, the factory sector continues to grow.



<b>CPI - U</b> <i>All Data Seasonally Adjusted</i>	<b>Apr-12</b>	<b>Mar-12</b>	<b>Feb-12</b>	<b>3-mo % Ch.</b> <b>annualized</b>	<b>6-mo % Ch.</b> <b>annualized</b>	<b>Yr to Yr</b> <b>% Change</b>
<b>Consumer Price Index</b>	<b>0.0%</b>	0.3%	0.4%	3.0%	2.1%	2.3%
<b>Ex Food &amp; Energy</b>	<b>0.2%</b>	0.2%	0.1%	2.3%	2.2%	2.3%
<b>Ex Energy</b>	<b>0.2%</b>	0.2%	0.1%	2.2%	2.2%	2.4%
<b>Energy</b>	<b>-1.7%</b>	0.9%	3.2%	9.7%	1.2%	0.9%
<b>Food and Beverages</b>	<b>0.2%</b>	0.1%	0.1%	1.6%	1.8%	3.0%
<b>Housing</b>	<b>0.1%</b>	0.1%	0.1%	1.4%	1.5%	1.7%
<b>Owners Equivalent Rent</b>	<b>0.2%</b>	0.2%	0.1%	1.9%	2.1%	2.1%
<b>New Vehicles</b>	<b>0.4%</b>	0.2%	0.6%	5.2%	1.8%	2.2%
<b>Medical Care</b>	<b>0.3%</b>	0.3%	0.2%	3.4%	3.7%	3.4%
<b>Services (Excluding Energy Services)</b>	<b>0.3%</b>	0.2%	0.1%	2.4%	2.6%	2.4%
<b>Real Average Hourly Earnings</b>	<b>0.0%</b>	-0.1%	-0.2%	-1.2%	-0.6%	-0.5%

Source: U.S. Department of Labor