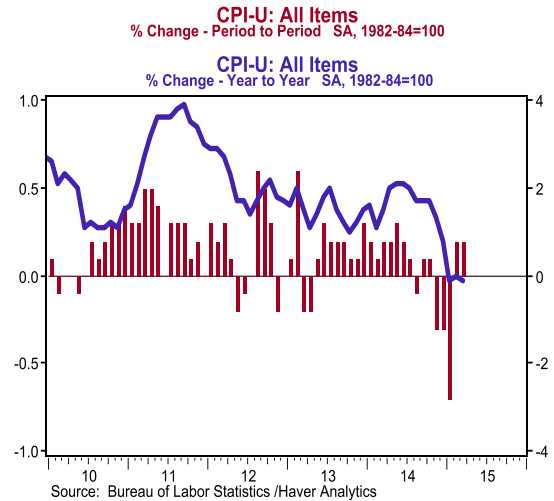


March CPI

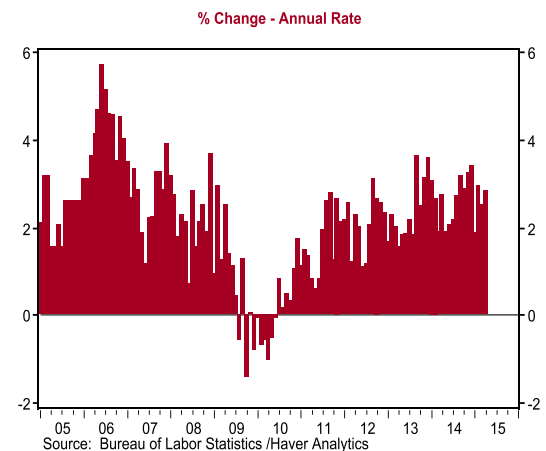
Brian S. Wesbury – Chief Economist
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Strider Elss – Economist

- The Consumer Price Index (CPI) increased 0.2% in March, coming in slightly below consensus expectations of 0.3%. The CPI is down 0.1% versus a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) rose 0.2% in March, but is down 0.8% in the past year.
- Energy prices increased 1.1% in March, while food prices declined 0.2%. The “core” CPI, which excludes food and energy, increased 0.2% in March, matching consensus expectations. Core prices are up 1.8% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.1% in March and are up 2.2% in the past year. Real *weekly* earnings are also up 2.2% in the past year.

Implications: Add another check to the list of data points suggesting the economy is ready for the Fed to lift rates in June. Almost every category showed rising prices for the month, but the largest contributors were energy and housing. “Core” prices, which exclude food and energy, increased 0.2% in March, the largest (unrounded) monthly gain since May of last year. With “core” prices up 1.8% in the past twelve months, the Federal Reserve should remain concerned about future increases in inflation even though overall consumer prices are slightly negative from a year ago. The reason overall consumer prices are depressed is that energy prices have dropped 18.3% in the past year. Excluding energy, prices are up 1.8%, very close to the Fed’s 2% target for inflation. Some analysts will use the fact that overall prices are down slightly from a year ago to warn about “Deflation.” But true deflation – of the kind we ought to be concerned about – is caused by overly tight monetary policy and price declines that are widespread, not isolated to one sector of the economy. Think of the Great Depression. Food prices held back inflation in March, as a bountiful growing season has translated to falling prices for fruits and vegetables. However, food prices are still up 2.3% in the past 12 months, so if you only use the supermarket to gauge inflation, we understand thinking the headline reports are too low and “true” inflation is higher. In addition, housing costs are going up. Owners’ equivalent rent, which makes up about ¼ of the CPI, rose 0.3% in March, is up 2.7% in the past year, and will be a key source of higher inflation in the year ahead. Finally, “real” (inflation-adjusted) average hourly earnings rose 0.1% in March. These earnings are up a healthy 2.2% in the past year and have been growing at a faster 4.3% over the past six months, signaling that consumer purchasing power continues to grow. If it weren’t for the decline in energy prices, inflation would be very close to the Fed’s two percent target. And with oil prices stabilized and moving higher in April, the Fed should get the confirmation they need in next month’s report to justify a first rate hike in June.



CPI-U: Owners' Equivalent Rent of Residences



CPI - U <i>All Data Seasonally Adjusted</i>	Mar-15	Feb-15	Jan-15	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.2%	0.2%	-0.7%	-0.9%	-1.6%	-0.1%
Ex Food & Energy	0.2%	0.2%	0.2%	2.3%	1.8%	1.8%
Ex Energy	0.2%	0.2%	0.1%	1.9%	1.7%	1.8%
Energy	1.1%	1.0%	-9.7%	-27.7%	-30.8%	-18.3%
Food and Beverages	-0.2%	0.1%	-0.1%	-0.4%	1.1%	2.3%
Housing	0.1%	0.2%	0.1%	1.8%	2.0%	1.9%
Owners Equivalent Rent	0.3%	0.2%	0.2%	3.0%	2.7%	2.7%
New Vehicles	0.2%	0.2%	-0.1%	1.1%	0.7%	0.8%
Medical Care	0.3%	0.0%	0.0%	1.2%	2.7%	2.5%
Services (Excluding Energy Services)	0.2%	0.1%	0.3%	2.6%	2.5%	2.4%
Real Average Hourly Earnings	0.1%	-0.1%	1.2%	5.1%	4.3%	2.2%

Source: U.S. Department of Labor