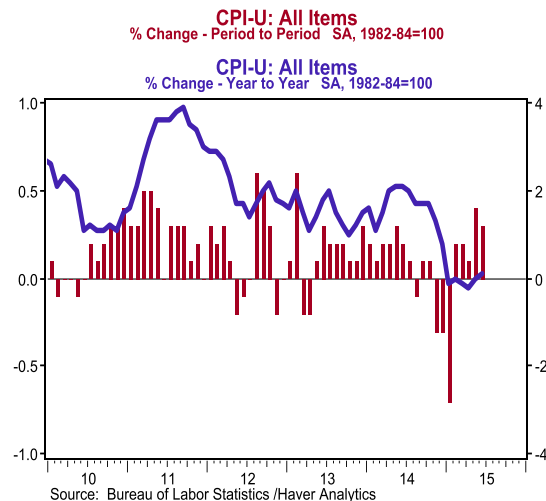


June CPI

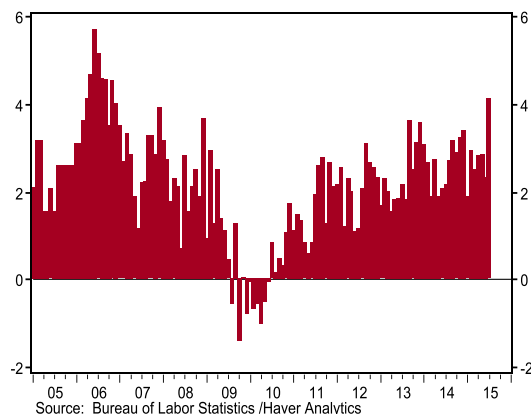
Brian S. Wesbury – Chief Economist
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Strider Elss – Economist

- The Consumer Price Index (CPI) increased 0.3% in June, matching consensus expectations. The CPI is up 0.1% from a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) rose 0.3% in June, but is down 0.6% in the past year.
- Energy prices rose 1.7% in June, while food prices increased 0.3%. The “core” CPI, which excludes food and energy, increased 0.2% in June, also 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 – declined 0.4% in June, but are up 1.7% in the past year. Real *weekly* earnings are up 1.8% in the past year.

Implications: Consumer prices increased in the second quarter at the fastest pace since 2011. Not just overall prices, driven by a rebound in energy prices, but “core” prices as well, excluding both food and energy. At 3.5%, the three-month annualized rate of overall inflation is well above the Federal Reserve’s 2% long-term target. Even core prices are up at a 2.3% annual rate in the past three months and the past six months as well. Either way, the recent pace of inflation has been running above the Fed’s 2% target and should eventually put pressure on the Fed to raise rates faster than the market expects. Overall consumer prices rose 0.3% in June and showed positive year-over-year growth for the first time in 2015. The lack of headline inflation in the past year is due to energy prices, which rose 1.7% in June (following a 4.3% increase in May) but remain down 15% from a year ago. Core prices increased 0.2% in June, are up 1.8% in the past twelve months, and have risen at a 2.3% annualized since the start of the year. In other words, core prices are gradually accelerating upward. With core prices so close to the Fed’s two percent inflation target, policymakers should remain concerned about future increases in inflation, even with overall inflation near zero in the past twelve months. Core consumer prices in June were led higher by housing. Owners’ equivalent rent, which makes up about ¼ of the CPI, rose 0.4% in June, is up 2.9% in the past year, up at a 3.6% annual rate in the past three months, and will be a key source of higher inflation in the year ahead. While some scaremongers warn about deflation, others stoke fears of hyperinflation. But the truth is that neither is a threat at present. What we have is low inflation that is likely to gradually work its way upward over the next few years. On the earnings front, “real” (inflation-adjusted) average hourly earnings declined 0.4% in June, but are up a moderate 1.7% in the past year. Taken as a whole, recent trends in both consumer and producer prices suggest that the long awaited rise in inflation is starting to take shape, adding further credence to calls for a September rate hike from the Fed.



CPI-U: Owners' Equivalent Rent of Residences
 % Change - Annual Rate



CPI - U <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Jun-15	May-15	Apr-15	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.3%	0.4%	0.1%	3.5%	1.3%	0.1%
Ex Food & Energy	0.2%	0.1%	0.3%	2.3%	2.3%	1.8%
Ex Energy	0.2%	0.1%	0.2%	2.2%	2.0%	1.8%
Energy	1.7%	4.3%	-1.3%	20.7%	-6.6%	-15.0%
Food and Beverages	0.3%	0.0%	0.0%	1.1%	0.4%	1.7%
Housing	0.2%	0.0%	0.2%	1.9%	1.9%	2.0%
Owners Equivalent Rent	0.4%	0.3%	0.3%	3.6%	3.3%	2.9%
New Vehicles	0.1%	0.2%	0.1%	1.7%	1.4%	1.2%
Medical Care	-0.2%	0.2%	0.7%	3.0%	2.1%	2.5%
Services (Excluding Energy Services)	0.3%	0.2%	0.3%	3.4%	3.0%	2.5%
Real Average Hourly Earnings	-0.4%	-0.2%	0.1%	-1.9%	1.3%	1.7%

Source: U.S. Department of Labor