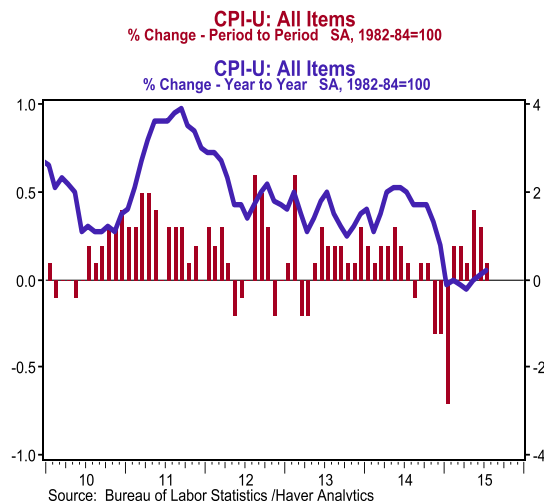


## July CPI

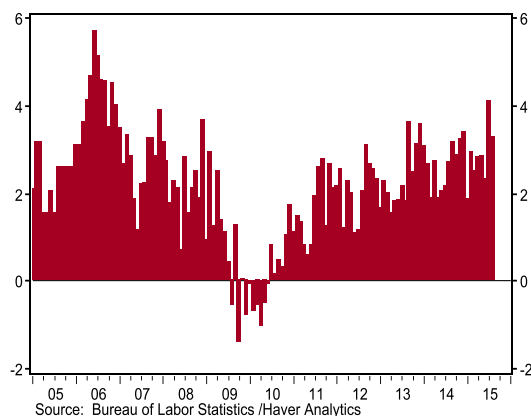
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- The Consumer Price Index (CPI) increased 0.1% in July, coming in slightly below consensus expectations of 0.2%. The CPI is up 0.2% from a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) rose 0.1% in July, but is down 0.6% in the past year.
- Food prices rose 0.2% in July, while energy prices increased 0.1%. The “core” CPI, which excludes food and energy, increased 0.1% in July, below consensus expectations of 0.2%. 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 July, and are up 1.9% in the past year. Real weekly earnings are up 2.2% in the past year.

**Implications:** In the continued wake of collapsing oil prices, the consumer price index increased for a sixth consecutive month in July, and showed the fastest three-month pace of inflation since 2012. At 3.6%, the three-month annualized rate of overall inflation is well above the Federal Reserve’s 2% long-term target. Core prices, which remove the volatile food and energy components, continue to hover around 2% inflation from a year ago. Either way, the recent pace of inflation has been running above the Fed’s target and should eventually put pressure on the Fed to raise rates faster than the market expects. Overall consumer prices rose 0.1% in July and showed slightly positive year-over-year growth. The lack of headline inflation in the past year is due to energy prices, which rose 0.1% in July (and are up 27% at an annual rate in the past three months) but remain down 15% from a year ago. Core prices increased 0.1% in July, are up 1.8% in the past twelve months, and have risen at a 2.2% annualized rate since the start of the year. In other words, core prices are continuing to gradually accelerate. 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 0.3% in July, is up 3.0% in the past year, up at a 3.7% 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 rose 0.1% in July, and are up a modest 1.9% in the past year. Taken as a whole, recent trends in both consumer and producer prices suggest the Fed has solid grounding to start raising rates in September.



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



<b>CPI - U</b> <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	<b>Jul-15</b>	<b>Jun-15</b>	<b>May-15</b>	<b>3-mo % Ch. annualized</b>	<b>6-mo % Ch. annualized</b>	<b>Yr to Yr % Change</b>
<b>Consumer Price Index</b>	0.1%	0.3%	0.4%	3.6%	2.9%	0.2%
<b>Ex Food &amp; Energy</b>	0.1%	0.2%	0.1%	1.8%	2.2%	1.8%
<b>Ex Energy</b>	0.1%	0.2%	0.1%	1.8%	2.0%	1.8%
<b>Energy</b>	0.1%	1.7%	4.3%	27.2%	14.7%	-14.8%
<b>Food and Beverages</b>	0.2%	0.3%	0.0%	1.8%	0.8%	1.6%
<b>Housing</b>	0.2%	0.2%	0.0%	1.9%	2.0%	2.0%
<b>Owners Equivalent Rent</b>	0.3%	0.4%	0.3%	3.7%	3.4%	3.0%
<b>New Vehicles</b>	-0.2%	0.1%	0.2%	0.4%	1.3%	0.7%
<b>Medical Care</b>	0.1%	-0.2%	0.2%	0.8%	2.4%	2.5%
<b>Services (Excluding Energy Services)</b>	0.2%	0.3%	0.2%	2.9%	2.8%	2.6%
<b>Real Average Hourly Earnings</b>	0.1%	-0.4%	-0.2%	-1.9%	-0.9%	1.9%

Source: U.S. Department of Labor