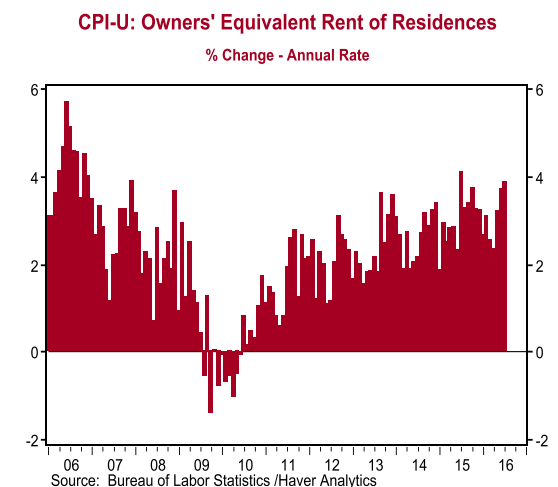
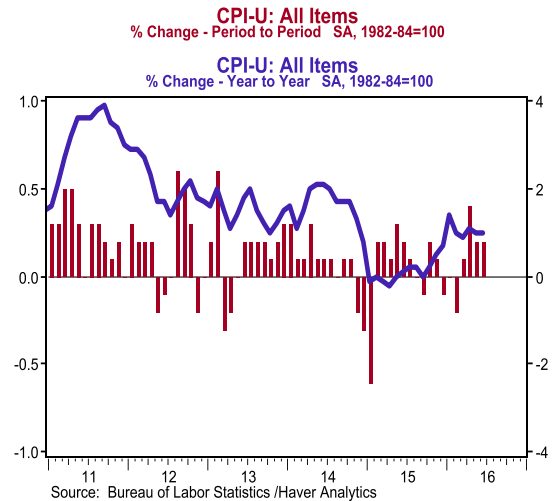


## June CPI

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- The Consumer Price Index (CPI) increased 0.2% in June, coming in below the consensus expected rise of 0.3%. The CPI is up 1.0% from a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) rose 0.2% in June and is up 0.4% in the past year.
- Energy prices rose 1.3% in June, while food prices declined 0.1%. The “core” CPI, which excludes food and energy, increased 0.2% in June, matching consensus expectations. Core prices are up 2.3% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – declined 0.2% in June but are up 1.5% in the past year. Real weekly earnings are up 1.2% in the past year.

**Implications:** Fed officials, take note, inflation is on the rise. The consumer price index rose 0.2% in June, but more importantly the pace of inflation has been steadily on the rise. While up a modest 1.0% in the past year, consumer prices have risen at a 1.6% annualized in the past six months and at a 3.4% annual rate in the past three months. Energy prices rose 1.3%, as rising prices for gasoline and fuel oil more than offset declining electricity costs. Excluding energy, consumer prices are up 2.0% in the past year, which means that as energy prices rise, the headline index will follow at a faster pace than many are expecting. Food prices fell 0.1% in June, led lower by declining costs for meats and dairy products, but “core” consumer prices, which exclude the volatile food and energy components, rose 0.2% in June and show annualized readings above 2% over the past three-, six-, and twelve-month periods. While the Fed continues to kick the can down the road, this consistent pace of “core” inflation around 2% – paired with continued employment gains and a clear acceleration in the headline consumer price index – shows the economy is ready for the next rate hike. The increase in the core CPI in June was led by housing rents, medical care and education. Owners’ equivalent rent, which makes up about ¼ of the CPI, rose 0.3% in June, is up 3.2% in the past year, and will be a key source of higher inflation in the year ahead. One negative piece of news in today’s report is that “real” (inflation-adjusted) average hourly earnings declined 0.2% in June. However real wages are up 1.5% in the past year and we think wages will rise faster than prices in the year ahead as employment continues to grow at a healthy clip. Consumers are ready, the economy is ready, and the data shows that a “data dependent” Fed should be ready to make monetary policy a little less loose.



<b>CPI - U</b>	<b>Jun-16</b>	<b>May-16</b>	<b>Apr-16</b>	<b>3-mo % Ch.</b>	<b>6-mo % Ch.</b>	<b>Yr to Yr</b>
<i>All Data Seasonally Adjusted Except for Yr to Yr</i>				<b>annualized</b>	<b>annualized</b>	<b>% Change</b>
<b>Consumer Price Index</b>	<b>0.2%</b>	0.2%	0.4%	3.4%	1.6%	1.0%
<b>Ex Food &amp; Energy</b>	<b>0.2%</b>	0.2%	0.2%	2.3%	2.5%	2.3%
<b>Ex Energy</b>	<b>0.1%</b>	0.1%	0.2%	1.9%	2.0%	2.0%
<b>Energy</b>	<b>1.3%</b>	1.2%	3.4%	26.8%	-4.0%	-9.4%
<b>Food and Beverages</b>	<b>-0.1%</b>	-0.2%	0.2%	-0.3%	-0.1%	0.4%
<b>Housing</b>	<b>0.2%</b>	0.3%	0.2%	3.0%	2.5%	2.4%
<b>Owners Equivalent Rent</b>	<b>0.3%</b>	0.3%	0.3%	4.0%	3.4%	3.2%
<b>New Vehicles</b>	<b>-0.2%</b>	-0.1%	-0.3%	-2.4%	-0.3%	-0.4%
<b>Medical Care</b>	<b>0.4%</b>	0.3%	0.3%	4.2%	4.4%	3.6%
<b>Services (Excluding Energy Services)</b>	<b>0.3%</b>	0.3%	0.3%	3.8%	3.4%	3.2%
<b>Real Average Hourly Earnings</b>	<b>-0.2%</b>	0.0%	-0.1%	-1.1%	1.1%	1.5%

Source: U.S. Department of Labor