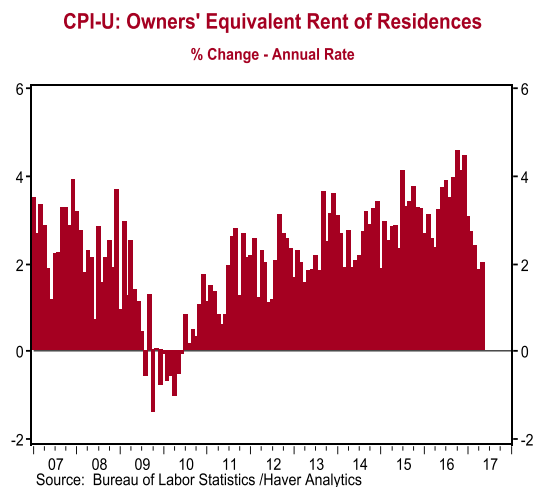
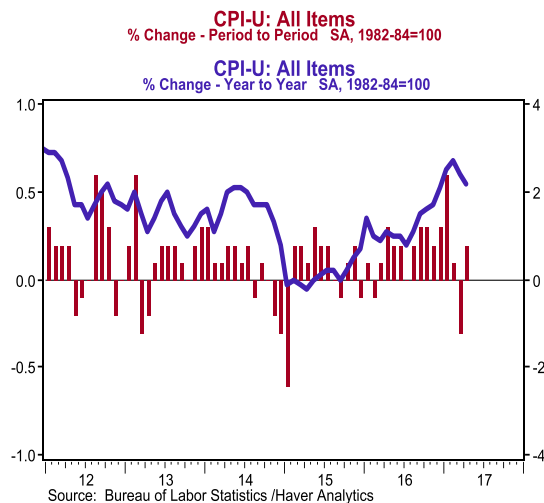


April CPI

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

- The Consumer Price Index (CPI) rose 0.2% in April, matching consensus expectations. The CPI is up 2.2% from a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) increased 0.1% in April and is up 1.8% in the past year.
- Energy prices rose 1.1% in April, while food prices rose 0.2%. The “core” CPI, which excludes food and energy, increased 0.1% in April, slightly below the consensus expected rise of 0.2%. Core prices are up 1.9% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.1% in April and are up 0.4% in the past year. Real average weekly earnings are up 0.3% in the past year.

Implications: After a brief pause in March, inflation continued its climb in April, with consumer prices following producer prices higher. Consumer prices are up 2.2% in the past year, compared to a 1.1% increase in the twelve months ending April 2016 and a 0.2% decline for the period ending April 2015. In other words, inflation is already in a rising trend. Energy prices led the index higher in April, up 1.1%, while rising costs for vegetables pushed food prices up 0.2%. Stripping out the volatile food and energy components, “core” CPI rose 0.1% in April and is up 1.9% in the past year. Housing led “core” prices higher in April, rising 0.3%, more than offsetting declines in medical and vehicle costs. Real average hourly earnings also rose in April, up 0.1%. These earnings are up a modest 0.4% over the past year, but, given continued employment gains and a tightening labor market, this should accelerate soon. Taken together, consumer prices aren’t showing signs of hyper-inflation, but because the Fed believes in the Phillips Curve the trend of accelerating price gains should have Fed officials focusing more on the potential for inflation to rise faster than desired as the jobless rate continues to fall below their long-term target. That’s why we expect the Fed to raise rates twice more in 2017, once in June and again in September. Then, in the fourth quarter, we expect the Fed to start unwinding the bloated Fed balance sheet that ballooned during early episodes of quantitative easing.



CPI - U <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Apr-17	Mar-17	Feb-17	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.2%	-0.3%	0.1%	0.0%	2.0%	2.2%
Ex Food & Energy	0.1%	-0.1%	0.2%	0.6%	1.7%	1.9%
Ex Energy	0.1%	-0.1%	0.2%	1.0%	1.7%	1.7%
Energy	1.1%	-3.2%	-1.0%	-11.7%	6.1%	9.3%
Food and Beverages	0.2%	0.3%	0.2%	3.1%	1.7%	0.6%
Housing	0.3%	0.1%	0.3%	2.7%	2.9%	3.2%
Owners Equivalent Rent	0.2%	0.2%	0.3%	2.6%	3.0%	3.4%
New Vehicles	-0.2%	-0.3%	-0.2%	-2.7%	0.5%	0.4%
Medical Care	-0.2%	0.1%	0.1%	0.4%	1.1%	3.0%
Services (Excluding Energy Services)	0.1%	-0.1%	0.3%	1.5%	2.5%	2.7%
Real Average Hourly Earnings	0.1%	0.4%	0.2%	2.7%	0.2%	0.4%

Source: U.S. Department of Labor