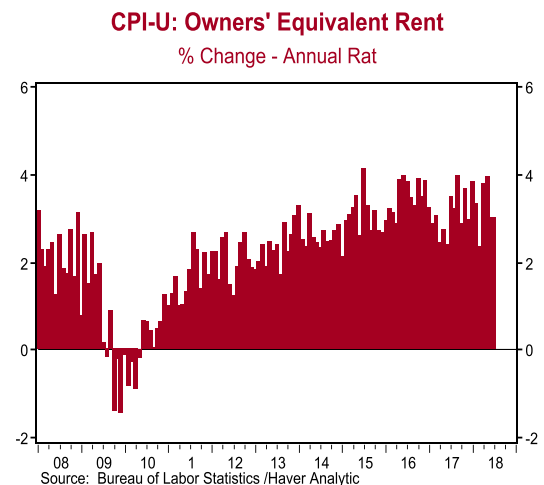
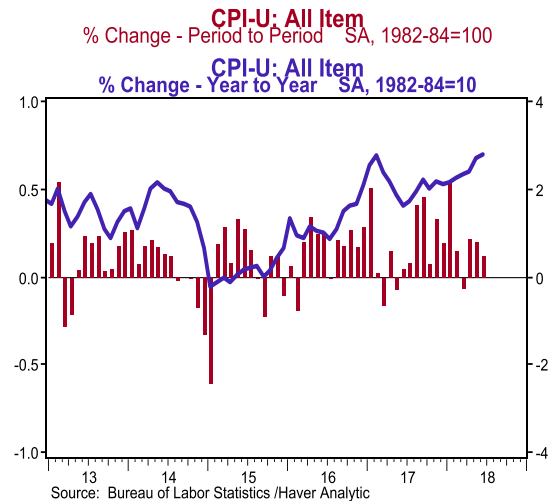


June CPI

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- The Consumer Price Index (CPI) rose 0.1% in June, coming in below the consensus expected +0.2%. The CPI is up 2.9% from a year ago.
- Food prices increased 0.2% in June, while energy prices declined 0.3%. The “core” CPI, which excludes food and energy, increased 0.2% in June, matching the consensus. Core prices are up 2.3% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.1% in June but are unchanged in the past year. Real average weekly earnings are up 0.2% in the past year.

Implications: Consumer prices increased less than the consensus expected in June, but are up 2.9% in the past year, the largest 12-month increase since 2011-12 and well above the Federal Reserve’s 2.0% inflation target. While rising energy prices have certainly contributed to the trend since oil prices bottomed in early 2016, inflation has been broad-based. “Core” consumer prices – which exclude both food and energy costs – rose 0.2% in June and are up 2.3% in the past year. More important, this is a trend, not a one-month anomaly. Consumer price inflation has now exceeded 2.0% on a twelve-month basis in each of the last ten months, while “core” prices have surpassed 2.0% on a twelve-month basis for each of the last four months. To put the rise in perspective, consumer prices increased 1.6% for the twelve-months ending June 2017 and 1.0% for the twelve-months ending June 2016. Taking a deeper look at today’s report shows energy prices declined 0.3% in June, as rising gasoline prices were more than offset by lower costs for natural gas and electricity. Meanwhile food prices rose in June, led higher by dairy products, fruits, and vegetables. Stripping out the food and energy components shows the 0.2% increase in core prices was once again led by owners equivalent rent (the amount an owner would need to pay in order to rent their home on the open market). On the wages front, real average hourly earnings rose 0.1% in June. These inflation-adjusted hourly earnings have shown little movement over recent periods, however this earnings data does not include irregular bonuses – like the ones paid by companies after the tax cut or to attract new hires. We expect a visible pickup in wage pressures in the year ahead. Paired with [continued strength in employment](#), the trend in inflation has put pressure on the Fed to keep up the pace of steady rate hikes. Expect two more hikes this year (for a total of four in 2018) with four more to follow in 2019, leaving monetary policy still accommodative but at a much more appropriate level given the pace of economic growth. In other news this morning, initial jobless claims declined 18,000 to 214,000. Continuing claims declined 3,000 to 1.74 million. These figures suggest jobs creation continues at a solid clip.



CPI - U	Jun-18	May-18	Apr-18	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
<i>All Data Seasonally Adjusted Except for Yr to Yr</i>						
Consumer Price Index	0.1%	0.2%	0.2%	2.3%	2.4%	2.9%
Ex Food & Energy	0.2%	0.2%	0.1%	1.7%	2.3%	2.3%
Ex Energy	0.2%	0.2%	0.1%	1.8%	2.2%	2.1%
Energy	-0.3%	0.9%	1.4%	8.3%	4.6%	12.0%
Food	0.2%	0.0%	0.3%	1.9%	1.6%	1.4%
Housing	0.0%	0.2%	0.3%	2.1%	2.6%	2.8%
Owners Equivalent Rent	0.3%	0.2%	0.3%	3.4%	3.3%	3.4%
New Vehicles	0.4%	0.3%	-0.5%	1.0%	-0.6%	-0.5%
Medical Care	0.4%	0.2%	0.1%	2.9%	2.9%	2.5%
Services (Excluding Energy Services)	0.2%	0.3%	0.2%	2.7%	3.0%	3.1%
Real Average Hourly Earnings	0.1%	0.1%	0.0%	0.7%	0.2%	0.0%

Source: U.S. Department of Labor