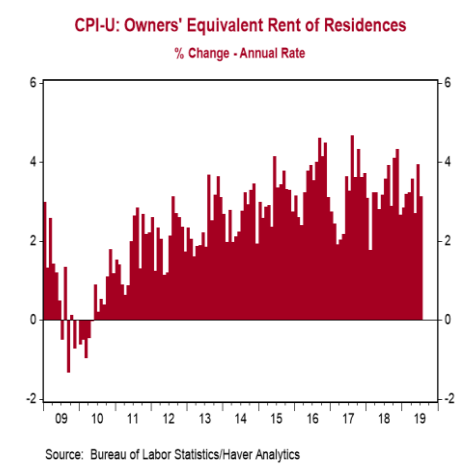
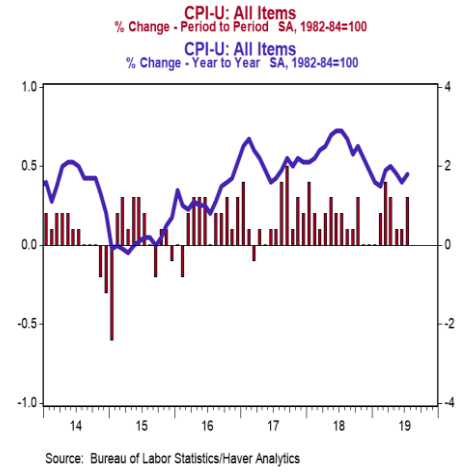


July CPI

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- The Consumer Price Index (CPI) rose 0.3% in July, matching consensus expectations. The CPI is up 1.8% from a year ago.
- Energy prices rose 1.3% in July, while food prices were unchanged. The “core” CPI, which excludes food and energy, increased 0.3% in July, coming in above the consensus expected gain of 0.2%. Core prices are up 2.2% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – declined 0.1% in July but are up 1.3% in the past year. Real average weekly earnings are up 0.8% in the past year.

Implications: This is why the Fed shouldn't be cutting rates. Consumer prices rose 0.3% in July while “core” prices – a gauge of inflation that strips out the typically volatile food and energy components – also rose 0.3%, tied for the largest monthly increase since 2005. Overall consumer prices are up 1.8% in the past year, but core prices are up 2.2%. Given the Fed's 2% inflation target, that should be a signal that everything is looking A-OK. Not too fast, not too slow, just right. But the Fed showed at its last meeting that it has moved away from a “data dependent” stance, so don't expect this pickup in inflation to change its plans for an additional rate cut at the next meeting in September. A look at the details of today's report should, at the least, make things interesting when the Fed releases its survey of economic projections (the “dot plots”) at its next meeting. Although core inflation is up 2.2% in the past year, it's up at a 2.8% annualized rate over the past three months. The Fed needs to keep this in mind in the months ahead as it deliberates about rate cuts. In addition, the Cleveland Fed's median CPI series, which adjusts for both upside and downside outliers, shows inflation up 2.9% in the past year. With employment data continuing to run strong, the Fed would clearly be putting their dual mandate on the back burner in an attempt to use monetary policy to “solve” issues that have developed overseas. It would be better served realizing that [the woes in Europe, Japan, and China are issues with fiscal and regulatory policy](#), things monetary policy can't fix. Housing, gasoline, and medical care led the index higher in July, but prices rose virtually across the board. We believe these data, as well as strength in trend inflation (which is far more important than single-month readings) don't support the case for rate cuts. The worst news in today's report was that real average hourly earnings declined 0.1% in July but are up 1.3% in the past year. With the strength in the labor market noted above, we believe the trend will move higher in the months ahead. Healthy consumer balance sheets, a strong job market, inflation in-line with Fed targets but pushing upwards, and the continued tail winds from improved tax and regulatory policy, all reinforce our belief that the economy is on solid footing.



CPI - U	Jul-19	Jun-19	May-19	3-mo % Ch.	6-mo % Ch.	Yr to Yr
<i>All Data Seasonally Adjusted Except for Yr to Yr</i>				annualized	annualized	% Change
Consumer Price Index	0.3%	0.1%	0.1%	1.9%	2.8%	1.8%
Ex Food & Energy	0.3%	0.3%	0.1%	2.8%	2.2%	2.2%
Ex Energy	0.3%	0.3%	0.1%	2.6%	2.2%	2.1%
Energy	1.3%	-2.3%	-0.6%	-6.3%	10.8%	-2.0%
Food	0.0%	0.0%	0.3%	1.3%	1.8%	1.8%
Housing	0.3%	0.3%	0.1%	2.7%	3.0%	3.0%
Owners Equivalent Rent	0.2%	0.3%	0.3%	3.3%	3.7%	3.4%
New Vehicles	-0.2%	0.1%	0.1%	-0.3%	0.5%	0.3%
Medical Care	0.5%	0.3%	0.3%	4.3%	3.0%	2.6%
Services (Excluding Energy Services)	0.3%	0.3%	0.2%	3.1%	3.0%	2.8%
Real Average Hourly Earnings	-0.1%	0.3%	0.2%	1.5%	0.2%	1.3%

Source: U.S. Department of Labor