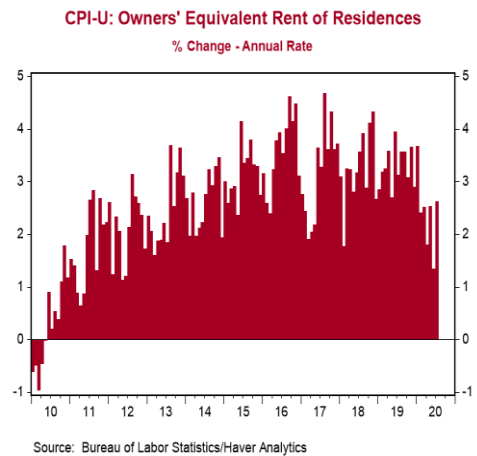
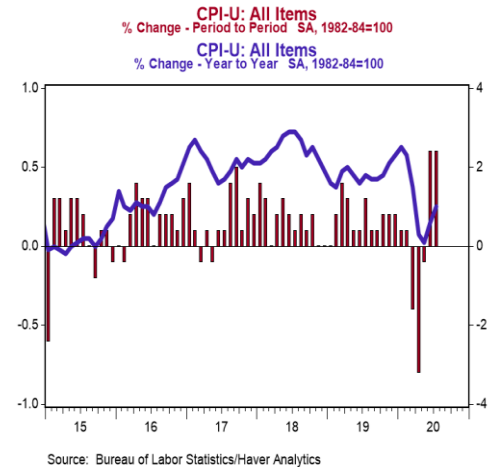


July CPI

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- The Consumer Price Index (CPI) rose 0.6% in July, coming in above the consensus expected 0.3%. The CPI is up 1.0% from a year ago.
- Energy prices rose 2.5% in July, while food prices declined 0.4%. The “core” CPI, which excludes food and energy, rose 0.6% in July, versus a consensus expected 0.2%. Core prices are up 1.6% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – declined 0.4% in July but are up 3.7% in the past year. Real average weekly earnings are up 4.3% in the past year.

Implications: Mirroring yesterday’s report on producer prices, consumer prices also posted above consensus gains in July, rising 0.6% for the second month in a row. The typically volatile food and energy categories moved in opposite directions in July as the effects of gradual re-openings from Coronavirus lockdowns began to show up in the data. Energy prices rose 2.5%, primarily due to a 5.6% increase in the price of gasoline as demand for fuel continues to rise along with other measures of mobility. Meanwhile, the 0.4% decline in food prices was largely driven by the food at home category which fell 1.1%, as Americans became less reliant on grocery stores for their meals and food supply chains finally caught up with demand. Strip out the impacts from the food and energy sectors, and “core” prices also increased 0.6% in June, the largest monthly increase since 1991! One of the biggest drivers of “core” prices in July was used cars and trucks which saw prices rise 2.3%, as dealers had lower inventory levels due to fewer trade-ins during the pandemic while they also experienced a surge in buyer demand. Some other contributors in July were apparel (1.1%), new vehicles (0.8%), and medical care services (0.4%). Amazingly, consumer prices never fell on a year-over-year basis during the short but sharp coronavirus recession, bottoming out in May at 0.1%, and rebounding since then to 1.0% in July. We expect prices will continue to rise in the months ahead toward the 2% - 3% annual pace of inflation that was in effect before the Coronavirus wreaked havoc on global economies. However, underlying fundamentals point to a higher risk of rising inflation than during the 2008 recession. The Coronavirus pandemic is the first recession on record where personal income has actually risen, due to government stimulus checks and boosted unemployment insurance payments that replaced greater than 100% of wages for many workers. Meanwhile, measures like industrial production and the unemployment rate demonstrate that the actual production of goods and services remains depressed relative to pre-pandemic levels. That mismatch between supply and demand will eventually mean too many dollars chasing too few goods, especially if further stimulus measures continue to lean on the same policies. That said, it’s clear that the economic recovery has begun, the worst economic quarter in the post-World War II era is behind us, and the question now shifts to how quickly we recover.



CPI - U	Jul-20	Jun-20	May-20	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	0.6%	0.6%	-0.1%	4.5%	-0.1%	1.0%
Ex Food & Energy	0.6%	0.2%	-0.1%	3.2%	0.9%	1.6%
Ex Energy	0.5%	0.3%	0.1%	3.3%	1.7%	1.9%
Energy	2.5%	5.1%	-1.8%	25.4%	-22.9%	-11.2%
Food	-0.4%	0.6%	0.7%	3.7%	6.4%	4.1%
Housing	0.3%	0.2%	0.2%	2.3%	1.5%	2.0%
Owners Equivalent Rent	0.2%	0.1%	0.3%	2.3%	2.5%	2.8%
New Vehicles	0.8%	0.0%	0.3%	4.7%	1.6%	0.5%
Medical Care	0.4%	0.4%	0.5%	5.5%	4.6%	5.0%
Services (Excluding Energy Services)	0.6%	0.3%	0.0%	3.3%	1.3%	2.3%
Real Average Hourly Earnings	-0.4%	-1.8%	-1.0%	-12.0%	7.0%	3.7%

Source: U.S. Department of Labor