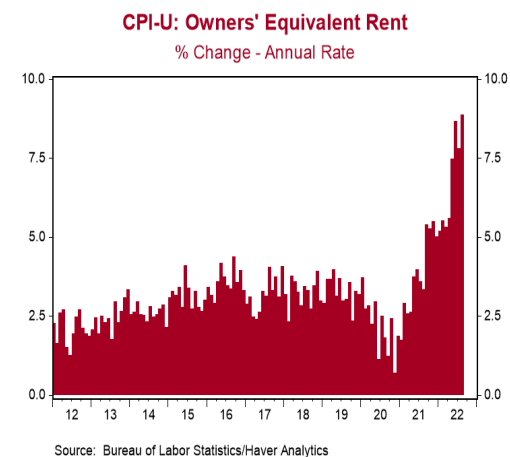
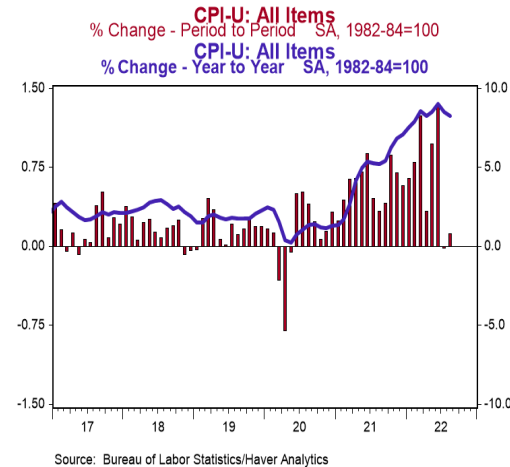


Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Ellass – Senior Economist
Andrew Opdyke, CFA – Senior Economist

August CPI

- The Consumer Price Index (CPI) rose 0.1% in August, above the consensus expected -0.1%. The CPI is up 8.3% from a year ago.
- Food prices increased 0.8% in August, while energy prices dropped 5.0%. The “core” CPI, which excludes food and energy, rose 0.6% in August, well above the consensus expected +0.3%. Core prices are up 6.3% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – increased 0.2% in August but are down 2.8% in the past year. Real average weekly earnings are down 3.4% in the past year.

Implications: Reports of the death of the inflation surge were greatly exaggerated. Although overall consumer prices rose only 0.1% in August, that was much higher than the consensus expected decline of 0.1% and largely due to the volatile energy sector, where prices fell 5.0% due to a 10.6% drop in gasoline prices. Excluding energy, consumer prices rose 0.6% in August. Food prices – the other typically volatile category – were a completely different story, posting its eighth consecutive monthly gain of at least 0.8%, on the back of higher costs for all major grocery-store food groups. Overall prices are up 8.3% from a year ago. That’s down from the peak of 9.1% back in June but still very high and well above the Federal Reserve’s 2.0% target. Stripping out food and energy, “core” prices rose 0.6% in August, pushing the year-ago comparison to 6.3%. (versus 5.9% in July). Digging into the core, housing rents (for both actual tenants and the rental value of owner-occupied homes) continued to increase at an outsized pace in August, rising 0.7%. Rents have been a key driver of inflation in 2022, and should continue to do so in 2023-24 because they make up more than 30% of the overall CPI and still have a long way to go to catch up to home prices, which skyrocketed during COVID. How high and important is rent inflation? If rents were to increase at the same rate for the next year as they did this month – they, all by themselves, would add 2.7 percentage points to headline inflation alone. That’s already above the Fed’s target. Other core categories that increased in August were new vehicles (+0.8%), household furnishings and operations (+1.0%), medical services (+0.7%), and education (+0.5%). Meanwhile, a few categories that have risen sharply in prior months continued to cool in August, such as prices for airline fares (-4.6%) and used vehicles (-0.1%). Overall inflation has been – and always is – a monetary phenomenon. The problem is that the Fed thinks it can manage inflation just by targeting short-term rates, including a 75 basis point hike it’s almost certain to make next Wednesday. We think the Fed needs to focus less on hiking interest rates and more on getting the growth in the money supply under consistent control.



CPI - U <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Aug-22	Jul-22	Jun-22	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.1%	0.0%	1.3%	5.8%	8.2%	8.3%
Ex Food & Energy	0.6%	0.3%	0.7%	6.5%	6.4%	6.3%
Ex Energy	0.6%	0.4%	0.7%	7.3%	7.3%	7.1%
Energy	-5.0%	-4.6%	7.5%	-9.7%	19.7%	23.8%
Food	0.8%	1.1%	1.0%	12.2%	12.5%	11.4%
Housing	0.8%	0.4%	0.8%	8.6%	8.8%	7.8%
Owners Equivalent Rent	0.7%	0.6%	0.7%	8.4%	7.3%	6.3%
New Vehicles	0.8%	0.6%	0.7%	8.8%	9.2%	10.1%
Medical Care	0.7%	0.4%	0.7%	7.4%	6.6%	5.4%
Services (Excluding Energy Services)	0.6%	0.4%	0.7%	6.7%	7.4%	6.1%
Real Average Hourly Earnings	0.2%	0.6%	-0.9%	-0.7%	-3.0%	-2.8%

Source: U.S. Department of Labor