First Trust DATAWATCH

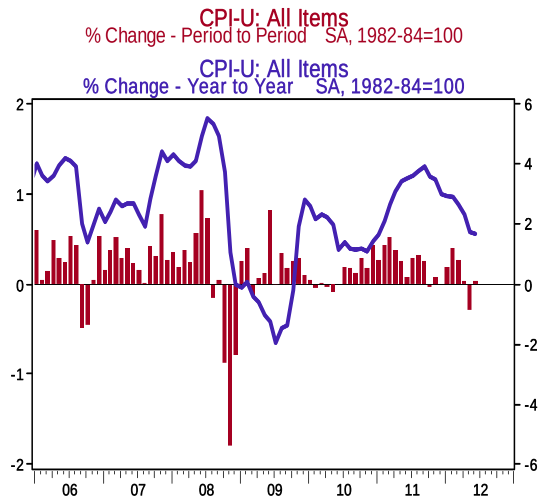
July 17, 2012 • 630.517.7756 • www.ftportfolios.com

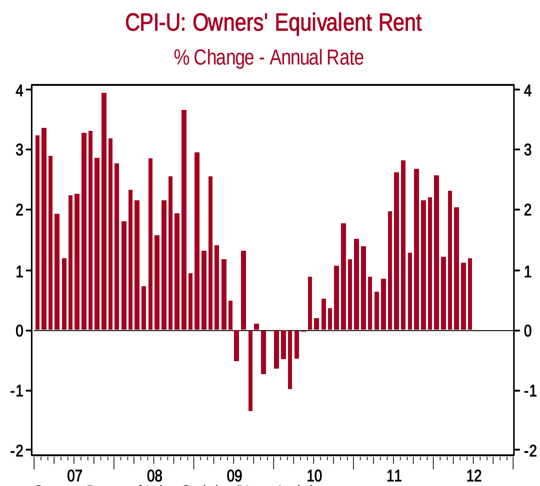
June CPI

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Senior Economist
Strider Elass – Economic Analyst

- The Consumer Price Index (CPI) was unchanged in June, matching consensus expectations. The CPI is up 1.7% versus a year ago.
- "Cash" inflation (which excludes the government's estimate of what homeowners would charge themselves for rent) was also unchanged in June, but is up 1.6% in the past year.
- The CPI was flat in June due to a 1.4% drop in energy, which offset widespread gains in most other major categories. The "core" CPI, which excludes food and energy, was up 0.2%, matching consensus expectations, and is up 2.2% versus last year.
- Real average hourly earnings – the cash earnings of all employees, adjusted for inflation – were up 0.2% in June and are up 0.3% in the past year. Real *weekly* earnings are up 0.6% in the past year.

Implications: Energy prices fell again in June. As a result, consumer prices were flat, matching consensus expectations. Excluding energy, consumer prices were up across the board. "Core" inflation, which excludes food and energy, was up 0.2% again in June and is up 2.2% from a year ago, hovering near the largest 12-month gain since September 2008. In the past three months, core prices are up at a 2.6% annual rate. These figures are already above the Federal Reserve's supposed target of 2%. Meanwhile, monetary policy is very loose and housing costs (which are measured by rents, not asset values) are rising. Owners' equivalent rent was up 0.1% in June and is up 2.0% versus a year ago. The ongoing shift from home ownership toward rental occupancy should boost this inflation measure even more in the year ahead. With loose monetary policy and housing costs accelerating, it's hard to see core inflation getting back down to the Fed's 2% target anytime soon. On the earnings front, "real" (inflation-adjusted) wages per hour were up 0.2% in June. These earnings are up 0.3% from a year ago. Worker hours are up 2.1% in the past year. Combining these two factors means workers' purchasing power is up about 2.5 % from a year ago, suggesting that the weakness in retail sales is temporary.





Source: Bureau of Labor Statistics /Haver Analytics

CPI - U *All Data Seasonally Adjusted*	Jun-12	May-12	Apr-12	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.0%**	-0.3%	0.0%	-0.8%	1.4%	1.7%
Ex Food & Energy	**0.2%**	0.2%	0.2%	2.6%	2.4%	2.2%
Ex Energy	**0.2%**	0.2%	0.2%	2.5%	2.3%	2.3%
Energy	**-1.4%**	-4.3%	-1.7%	-26.2%	-6.5%	-3.9%
Food and Beverages	**0.2%**	0.0%	0.2%	1.7%	1.7%	2.7%
Housing	**0.1%**	0.0%	0.1%	0.8%	1.1%	1.6%
Owners Equivalent Rent	**0.1%**	0.1%	0.2%	1.5%	1.8%	2.0%
New Vehicles	**0.2%**	0.2%	0.4%	3.3%	3.3%	0.9%
Medical Care	**0.6%**	0.4%	0.3%	5.2%	4.3%	4.0%
Services (Excluding Energy Services)	**0.2%**	0.2%	0.3%	2.7%	2.5%	2.5%
Real Average Hourly Earnings	**0.2%**	0.5%	0.1%	3.2%	0.8%	0.3%

Source: U.S. Department of Labor