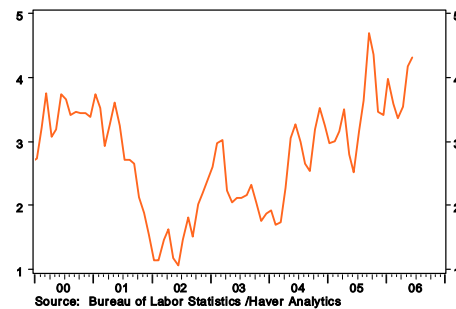


JUNE CPI

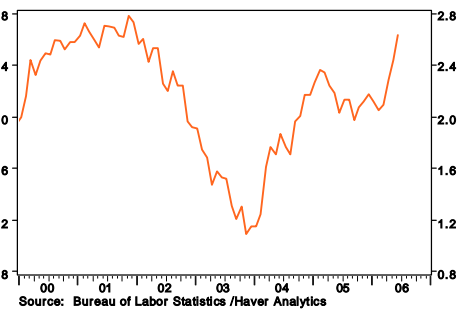
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- The Consumer Price Index (CPI) rose 0.2% in June after a 0.4% increase in May. The CPI has increased 5.1% at an annualized rate in the past three months and 4.3% in the past year.
- Energy prices fell 0.9% in June but are up 23.3% in the past year. Food and beverage prices increased 0.3% last month. Excluding food and energy, the “core” CPI was up 0.3% in June – the fourth consecutive month that “core” inflation has increased at a 0.3% rate. The 12-month change in the “core” CPI was 2.6% in June – the fastest YOY gain since 2001.

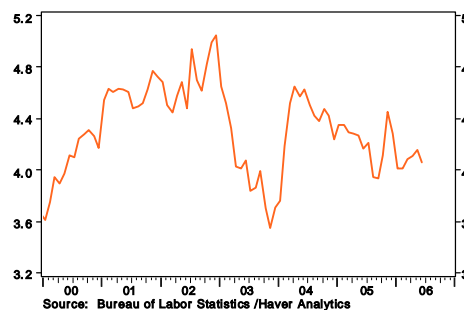
CPI-U: All Items
 % Change - Year to Year



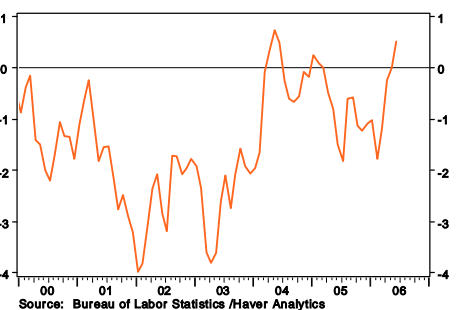
CPI-U: All Items Less Food and Energy
 % Change Year to Year



CPI-U: Medical Care
 % Change - Year to Year



CPI-U: Apparel
 % Change - Year to Year



Implications: Consumer price inflation was widespread in June, even in a month in which energy prices fell. Housing rose 0.2%, medical care increased 0.3%, education jumped 0.5%, and motor vehicle prices increased 0.1%. The increase in motor vehicle prices combined with the 2.1% gain in unit auto sales suggest that June retail sales data (which showed motor vehicle sales falling by 1.4%) is likely to be upwardly revised. This should help calm the nerves of those that fear the consumer is struggling. Today’s data continues the sharp acceleration in “core” consumer prices so far this year. In the first six months of 2006, the CPI is up an annualized 4.7% and the “core” CPI is up an annualized 3.2% - the fastest growth in the first half of the year since 1990 and 1995, respectively. Moreover, both of these growth rates are well above the Fed’s comfort zone. Traditional lags suggest that it takes at least 18-24 months for changes in monetary policy to show up in consumer price data. As a result, the recent acceleration in the “core” CPI is likely a reflection of past accommodation by the Fed. To judge the stance of monetary policy today, one must focus on market-based indicators like gold and the dollar, which do not react with a lag. These beacons signal that Fed policy remains accommodative. Our models suggest that a 6% fed funds rate is “neutral.” Only by tightening to this level can the Fed end the bulge in inflation.

CPI - U <i>all data seasonally adjusted</i>	Jun-06	May-06	Apr-06	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr over Yr % Ch.
Consumer Price Index	0.2%	0.4%	0.6%	5.1%	4.7%	4.3%
X Food & Energy	0.3%	0.3%	0.3%	3.6%	3.2%	2.6%
X Energy	0.3%	0.3%	0.2%	3.4%	3.0%	2.6%
Energy	-0.9%	2.4%	3.9%	23.8%	22.8%	23.3%
Food and Beverages	0.3%	0.2%	0.0%	1.9%	2.3%	2.2%
Housing	0.2%	0.3%	0.1%	3.0%	3.1%	4.2%
Apparel	0.0%	0.2%	0.6%	3.1%	2.2%	0.5%
Transportation	-0.2%	1.5%	2.4%	15.9%	13.2%	9.0%
- New Vehicles	-0.1%	-0.3%	-0.1%	-1.7%	0.3%	-0.7%
Medical Care	0.3%	0.3%	0.4%	3.9%	4.0%	4.1%
Recreation	0.1%	0.2%	0.3%	2.2%	2.0%	1.9%
Education & Communication	0.3%	0.0%	0.3%	2.4%	2.8%	2.7%
Commodities	0.0%	0.7%	1.1%	7.3%	6.3%	4.7%
Commodities x Food & Beverages	-0.1%	1.0%	1.7%	10.9%	8.9%	6.0%
Services	0.3%	0.3%	0.2%	3.4%	3.5%	4.1%
Services x Energy Services	0.4%	0.4%	0.3%	4.5%	4.0%	3.5%
Other Goods & Services	0.6%	0.1%	0.0%	2.5%	2.4%	2.9%

Source: U.S. Department of Labor

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