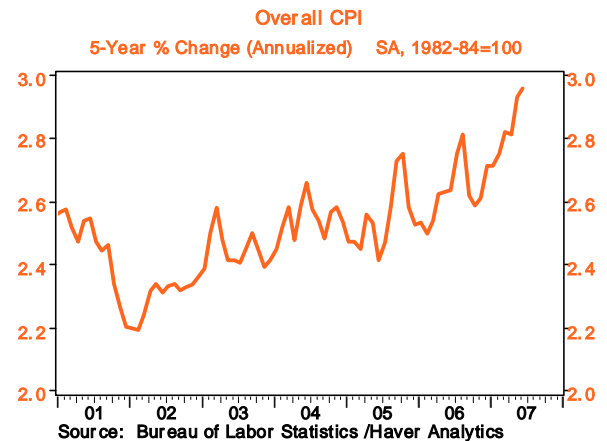
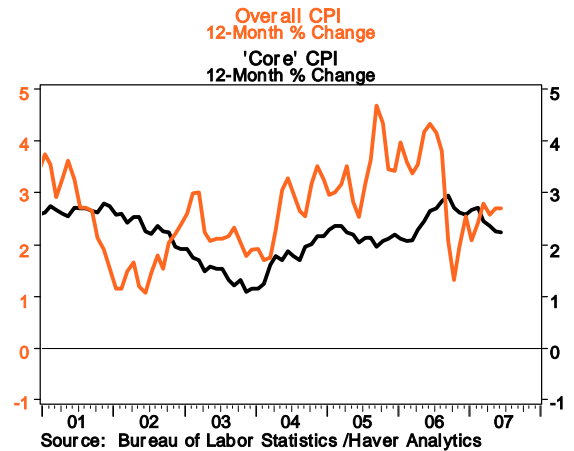


JUNE CPI

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- The Consumer Price Index (CPI) increased 0.2% in June, slightly more than the consensus expected. The CPI is up 2.7% versus a year ago.
- Energy prices declined 0.5% in June. Excluding food and energy, the core CPI was up 0.2%, as the consensus expected. The core CPI is up 2.2% versus a year ago.
- The rise in the CPI was mostly due to housing and food prices. Housing rose due to owners' equivalent rent (what we theoretically pay ourselves to rent our own homes), up 0.2%, and lodging away from home (hotels), up 2.5%. Much of the increase in food prices was due to a 3.2% increase in dairy prices, the second largest monthly gain for dairy in the past twenty years. The increase in dairy may be a downstream effect of widespread higher farm prices, as energy policy drives up ethanol prices.

Implications: Inflation is still a problem. Despite a year-to-year increase of 2.7%, the CPI was up at a 6% annual rate in the second quarter as a whole (average prices in April through June versus average prices in January through March), the largest quarterly gain since 1990. Although the core CPI is up only 2.2% versus last year this figure excludes food and energy, where inflation has been the worst. The chart to the right shows that the medium term five-year trend in inflation is still rising. CPI inflation has averaged 3% (2.96% un-rounded) in the past five years, the most since 1990-95.



CPI - U <i>All Data Seasonally Adjusted</i>	Jun-07	May-07	Apr-07	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.2%	0.7%	0.4%	5.2%	5.0%	2.7%
Ex Food & Energy	0.2%	0.1%	0.2%	2.3%	2.3%	2.2%
Ex Energy	0.3%	0.2%	0.2%	2.7%	2.8%	2.5%
Energy	-0.5%	5.4%	2.4%	32.9%	27.8%	4.6%
Food and Beverages	0.5%	0.3%	0.4%	4.9%	6.2%	4.0%
Housing	0.3%	0.2%	0.2%	3.0%	3.2%	3.4%
Owners Equivalent Rent	0.2%	0.1%	0.2%	1.9%	2.5%	3.3%
New Vehicles	0.0%	-0.2%	0.0%	-0.8%	-0.1%	-1.0%
Medical Care	0.2%	0.3%	0.4%	3.8%	4.7%	4.0%
Services (Excluding Energy Services)	0.3%	0.3%	0.3%	3.6%	3.3%	3.4%
Real Average Hourly Earnings	0.2%	-0.5%	-0.2%	-1.9%	-1.9%	1.2%

Source: U.S. Department of Labor