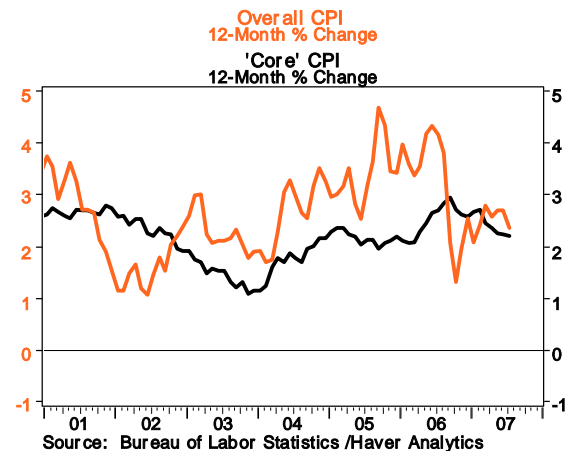


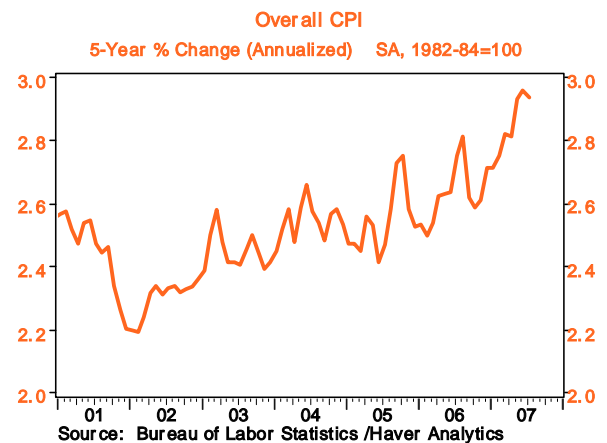
JULY CPI

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- The Consumer Price Index (CPI) increased 0.1% in July, as the consensus expected. The CPI is up 2.4% versus a year ago.
- Energy prices declined 1.0% in July. 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, food away from home (restaurant prices), and medical care.
- Real average hourly earnings – the cash earnings of production workers – increased 0.2% and are up 1.7% in the past year.



Implications: Inflation is still a problem. Despite a year-to-year increase of 2.4%, the CPI is up at a 4.9% annual rate in the past six months. During the next several months, comparisons to last year are going to escalate from 2.4% at present up to about 4%. 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 five-year trend in inflation has risen substantially since late 2001. Meanwhile, the relatively low 0.1% overall CPI inflation figure for July suggests real (inflation adjusted) consumption is growing at about a 2.5% rate in the third quarter, adding some upside risk to our forecast of 3% real GDP growth in the third quarter.



CPI - U <i>All Data Seasonally Adjusted</i>	Jul-07	Jun-07	May-07	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.1%	0.2%	0.7%	4.0%	4.9%	2.4%
Ex Food & Energy	0.2%	0.2%	0.1%	2.5%	2.2%	2.2%
Ex Energy	0.2%	0.3%	0.2%	2.8%	2.7%	2.5%
Energy	-1.0%	-0.5%	5.4%	16.0%	28.9%	1.0%
Food and Beverages	0.3%	0.5%	0.3%	4.3%	5.2%	4.1%
Housing	0.2%	0.3%	0.2%	2.7%	3.1%	3.2%
Owners Equivalent Rent	0.2%	0.2%	0.1%	1.8%	2.4%	3.1%
New Vehicles	0.0%	0.0%	-0.2%	-0.8%	0.0%	-1.1%
Medical Care	0.6%	0.2%	0.3%	4.8%	4.4%	4.3%
Services (Excluding Energy Services)	0.3%	0.3%	0.3%	3.5%	3.2%	3.3%
Real Average Hourly Earnings	0.2%	0.4%	-0.5%	0.5%	-1.2%	1.7%

Source: U.S. Department of Labor