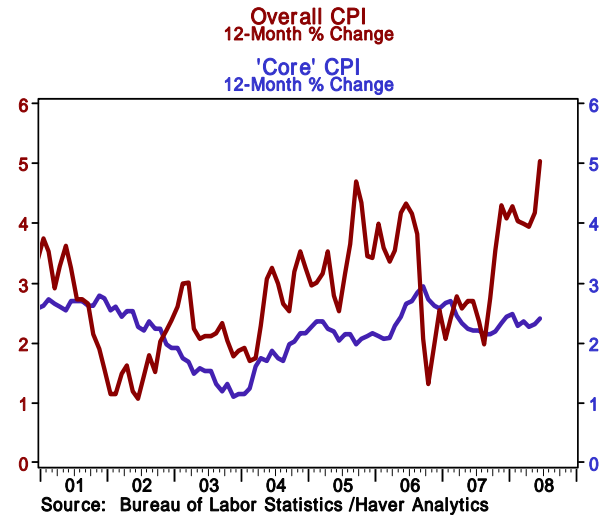


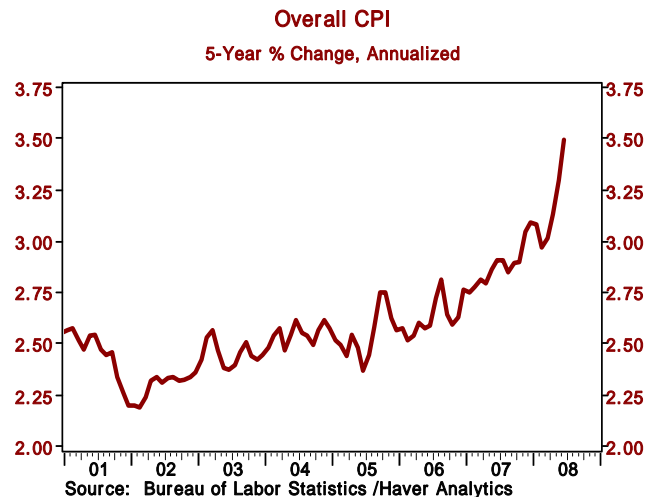
JUNE CPI

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- The Consumer Price Index (CPI) increased 1.1% in June versus a consensus expected rise of 0.7%. The CPI is up 5.0% versus a year ago.
- Most of the increase in the CPI was due to energy prices, which increased 6.6% in June and are up 24.7% versus last year. Food and beverage prices were up 0.7% in June and are up 5.2% versus a year ago.
- Excluding food and energy, the “core” CPI was up 0.3% in June and is up 2.4% versus a year ago. Excluding just energy, the CPI was up 0.4% in June and is up 2.9% versus a year ago.
- Real average hourly earnings – the cash earnings of production workers – were down 0.8% in June and are down 1.8% versus a year ago.



Implications: The Federal Reserve needs to stop dithering and focus on inflation. The consumer price index increased 1.1% in June, the largest one-month increase since 1982 (except for the month after Hurricanes Katrina/Rita). The CPI is up 5% versus last year, the largest gain since 1991. This comes on the heels of yesterday’s news that producer prices increased 1.8% in June. Some analysts continue to minimize the threat of inflation by focusing on the “core” CPI, which excludes food and energy prices and is up only 2.4% versus a year ago. Focusing on the core makes sense when energy/food prices are volatile both up and down, not when almost all the volatility is on the upside. In this situation, focusing on the core *hides* the underlying trend. The reason overall inflation is a problem is that the Federal Reserve has been too loose. Once energy and food prices stop rising as quickly, core measures of inflation will accelerate. As the chart to the right shows, the long-term (5-year) trend in inflation remains upward. At 3.5%, the 5-year trend is the highest since 1994. This shows that inflation is not a temporary phenomenon caused by oil.



CPI - U <i>All Data Seasonally Adjusted</i>	Jun-08	May-08	Apr-08	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	1.1%	0.6%	0.2%	7.9%	5.5%	5.0%
Ex Food & Energy	0.3%	0.2%	0.1%	2.5%	2.3%	2.4%
Ex Energy	0.4%	0.2%	0.2%	3.4%	3.0%	2.9%
Energy	6.6%	4.4%	0.0%	53.6%	29.1%	24.7%
Food and Beverages	0.7%	0.3%	0.9%	8.1%	6.6%	5.2%
Housing	0.5%	0.5%	0.3%	5.2%	4.3%	3.5%
Owners Equivalent Rent	0.3%	0.1%	0.2%	2.2%	2.3%	2.6%
New Vehicles	0.2%	-0.1%	-0.2%	-0.1%	-1.4%	-1.0%
Medical Care	0.2%	0.2%	0.2%	2.1%	2.7%	4.0%
Services (Excluding Energy Services)	0.4%	0.3%	0.1%	3.6%	3.2%	3.3%
Real Average Hourly Earnings	-0.8%	-0.4%	-0.1%	-5.2%	-2.4%	-1.8%

Source: U.S. Department of Labor