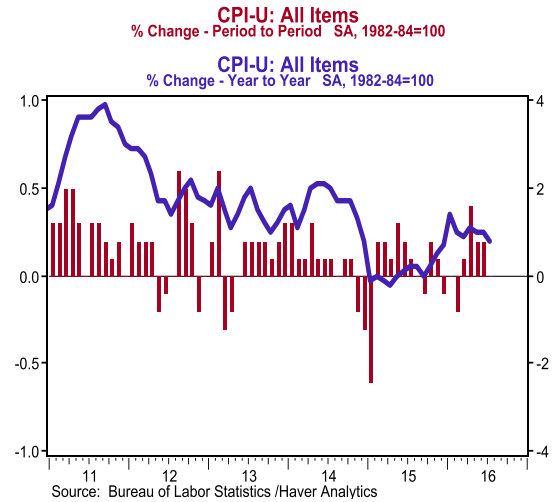


# July CPI

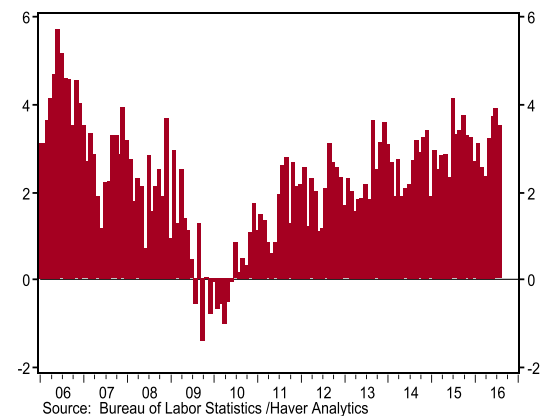
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- The Consumer Price Index (CPI) was unchanged in July, matching consensus expectations. The CPI is up 0.8% from a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) declined 0.1% in July but is up 0.2% in the past year.
- Energy prices declined 1.6% in July, while food prices were unchanged. The “core” CPI, which excludes food and energy, increased 0.1% in July, coming in below the consensus expected rise of 0.2%. Core prices are up 2.2% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.4% in July and are up 1.7% in the past year. Real weekly earnings are up 1.4% in the past year.

**Implications:** A pullback in energy prices kept overall consumer prices unchanged in July, but the underlying trend continues to show prices rising at a moderate clip. While up a modest 0.8% in the past year, consumer prices have risen at a 1.5% annualized in the past six months and at a 1.6% annual rate in the past three months. Energy prices fell 1.6% in July, following a combined 6.1% rise over the previous three months. While these prices remain down 10.9% in the past year, they are up at a 3.9% annual rate in the past three months and are up through the first half of August. Excluding just energy, consumer prices are up 1.9% in the past year, which means that as energy prices rise, the headline index will follow at a faster pace than many are expecting. Food prices were unchanged in July, as rising costs for fruits and vegetables were offset by declining prices for meat, poultry, and fish. “Core” consumer prices, which exclude the volatile food and energy components, rose 0.1% in July and are up 2.2% in the past year. No wonder even a “dove” like New York Fed Chief Bill Dudley is trying to move the markets away from the consensus view that the Fed won’t raise rates this year. A consistent pace of “core” inflation around 2% – paired with continued employment gains and an acceleration in the headline consumer price index – shows the economy is ready for the next rate hike. The increase in the core CPI in July was led by housing rents, medical care, and autos. Owners’ equivalent rent, which makes up about ¼ of the CPI, rose 0.3% in July, is up 3.3% in the past year, and will be a key source of higher inflation in the year ahead. One of the best pieces of news in today’s report is that “real” (inflation-adjusted) average hourly earnings rose 0.4% in July. Real wages are up a healthy 1.7% in the past year and we think wages will rise faster than prices in the year ahead as employment continues to grow at a healthy clip. Barring a surprise to the downside in employment and inflation releases next month, the “data dependent” Fed has the numbers to support raising rates in September.



**CPI-U: Owners' Equivalent Rent of Residences**  
 % Change - Annual Rate



CPI - U	Jul-16	Jun-16	May-16	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
<i>All Data Seasonally Adjusted Except for Yr to Yr</i>						
<b>Consumer Price Index</b>	0.0%	0.2%	0.2%	1.6%	1.5%	0.8%
<b>Ex Food &amp; Energy</b>	0.1%	0.2%	0.2%	1.9%	2.0%	2.2%
<b>Ex Energy</b>	0.1%	0.1%	0.1%	1.4%	1.7%	1.9%
<b>Energy</b>	-1.6%	1.3%	1.2%	3.9%	-1.7%	-10.9%
<b>Food and Beverages</b>	0.0%	-0.1%	-0.2%	-1.1%	-0.2%	0.3%
<b>Housing</b>	0.3%	0.2%	0.3%	3.2%	2.7%	2.4%
<b>Owners Equivalent Rent</b>	0.3%	0.3%	0.3%	3.9%	3.5%	3.3%
<b>New Vehicles</b>	0.2%	-0.2%	-0.1%	-0.1%	-0.4%	0.0%
<b>Medical Care</b>	0.5%	0.4%	0.3%	5.1%	4.4%	4.0%
<b>Services (Excluding Energy Services)</b>	0.2%	0.3%	0.3%	3.2%	3.1%	3.1%
<b>Real Average Hourly Earnings</b>	0.4%	-0.2%	0.0%	0.8%	0.9%	1.7%

Source: U.S. Department of Labor