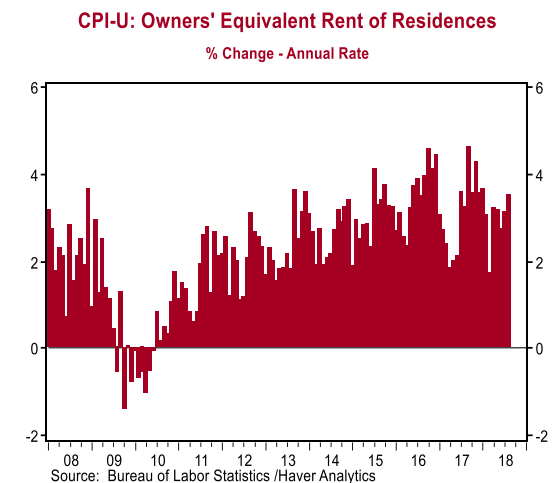
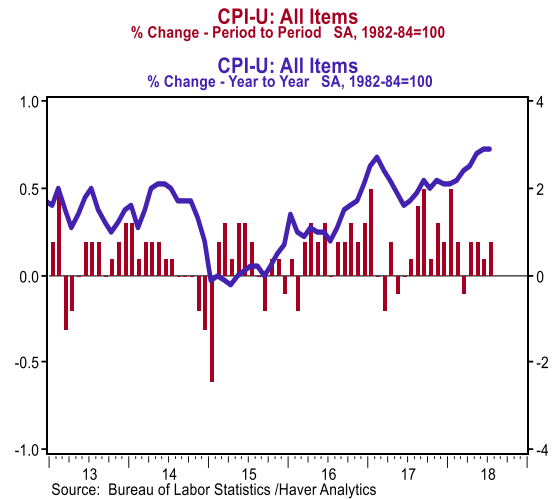


July CPI

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- The Consumer Price Index (CPI) rose 0.2% in July, matching consensus expectations. The CPI is up 2.9% from a year ago.
- Food prices increased 0.1% in July, while energy prices declined 0.5%. The “core” CPI, which excludes food and energy, increased 0.2% in July, also matching the consensus. Core prices are up 2.4% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – were unchanged in July but are down 0.2% in the past year. Real average weekly earnings are up 0.1% in the past year.

Implications: Consumer prices continue to march higher, rising 0.2% in July and, at 2.9%, matched June’s reading for the largest 12-month increase going back to 2011-12. While rising energy prices have certainly contributed to the trend since oil prices bottomed in early 2016, inflation has been broad-based. “Core” consumer prices – which exclude both food and energy costs – also rose 0.2% in July and are up 2.4% in the past year. More importantly, this is a trend, not a one-month anomaly. Consumer price inflation has now exceeded 2.0% on a twelve-month basis in each of the last eleven months, while “core” prices have surpassed 2.0% on a twelve-month basis for each of the last five months. To put the rise in perspective, consumer prices increased 1.7% for the twelve-months ending July 2017 and 0.8% for the twelve-months ending July 2016. Taking a deeper look at today’s report shows energy prices fell 0.5% in July, as prices for gasoline, natural gas, and electricity all declined. Meanwhile food prices rose 0.1% in July, led higher by costs for fruits and vegetables. Stripping out the food and energy components shows the 0.2% increase in core prices was once again led by owners’ equivalent rent (the amount an owner would need to pay in order to rent their home on the open market). On the wages front, real average hourly earnings were flat in July and are down 0.2% in the past year. These inflation-adjusted hourly earnings have been stubbornly slow to move, however this earnings data does not include irregular bonuses – like the ones paid by companies after the tax cut or to attract new hires. We expect a visible pickup in wage pressures in the year ahead. Paired with continued strength in employment ([see the sneaky-strong July data released last Friday](#)), the trend in inflation has put pressure on the Fed to keep up the pace of steady rate hikes. Expect two more hikes this year (for a total of four in 2018) with four more to follow in 2019, leaving monetary policy still accommodative but at a much more appropriate level given the pace of economic growth.



CPI - U	Jul-18	Jun-18	May-18	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
<i>All Data Seasonally Adjusted Except for Yr to Yr</i>						
Consumer Price Index	0.2%	0.1%	0.2%	2.1%	1.6%	2.9%
Ex Food & Energy	0.2%	0.2%	0.2%	2.3%	2.1%	2.4%
Ex Energy	0.2%	0.2%	0.2%	2.2%	2.0%	2.2%
Energy	-0.5%	-0.3%	0.9%	0.4%	-2.4%	12.1%
Food	0.1%	0.2%	0.0%	1.4%	1.5%	1.4%
Housing	0.2%	0.0%	0.2%	1.9%	2.7%	2.9%
Owners Equivalent Rent	0.3%	0.3%	0.2%	3.2%	3.3%	3.4%
New Vehicles	0.3%	0.4%	0.3%	4.4%	0.3%	0.2%
Medical Care	-0.2%	0.4%	0.2%	1.8%	1.6%	1.9%
Services (Excluding Energy Services)	0.3%	0.2%	0.3%	3.1%	2.9%	3.1%
Real Average Hourly Earnings	0.0%	0.1%	0.1%	0.7%	0.7%	-0.2%

Source: U.S. Department of Labor