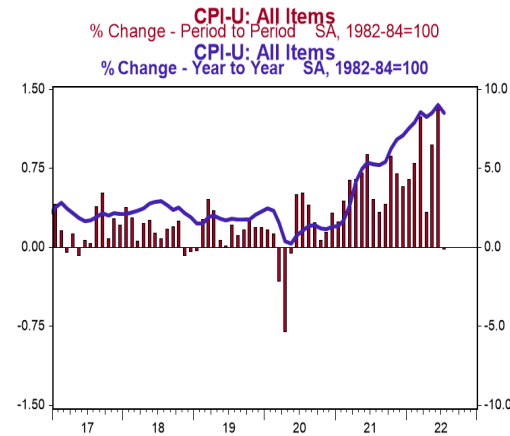


July CPI

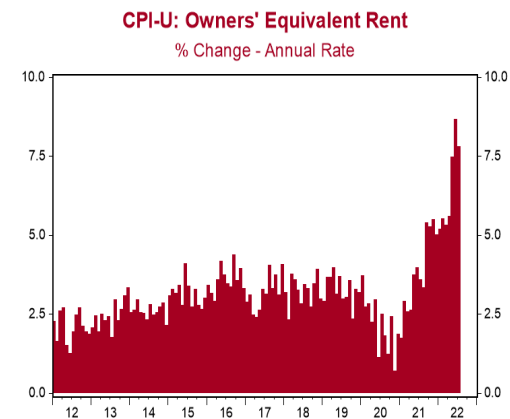
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- The Consumer Price Index (CPI) was unchanged in July, below the consensus expected +0.2%. The CPI is up 8.5% from a year ago.
- Energy prices declined 4.6% in July, while food prices increased 1.1%. The “core” CPI, which excludes food and energy, rose 0.3% in July, below the consensus expected +0.5%. Core prices are up 5.9% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – increased 0.5% in July but are down 3.0% in the past year. Real average weekly earnings are down 3.6% in the past year.

Implications: Is the inflation scare over? Not by a long shot. Today’s downside surprise to July consumer prices was the mirror-image of June’s surprise to the upside, both of which were driven by the volatile energy sector. Consumer prices were unchanged in July, muted by a 4.6% decline in energy, which followed a 7.5% energy price spike in June. Excluding energy, consumer prices were up 0.4% in July. The decline in energy prices for the month drove the year-ago comparison for the headline index down to 8.5% (versus 9.1% in June). When you look at inflation on a year-ago comparison basis, it probably peaked back in June at 9.1%, but that doesn’t mean inflation is no longer a major problem. In the past two months – taking the surge in June as well as the unchanged overall price level in July – consumer prices are up at an 8.1% annual rate. That is no different than the 8.1% annualized increase in April and May, before the spike and then decline in energy prices. Looking at the details of today’s report, food prices – the other typically volatile category – was a different story from energy, posting its seventh consecutive monthly gain of at least 0.9%, on the back of higher costs for all six major grocery-store food groups. Stripping out food and energy, “core” prices rose 0.3% in July, leaving the year-ago comparison unchanged at 5.9%. Digging into the core data shows persistent inflation pressures that were partially offset by a string of smaller category declines. Housing rents (for both actual tenants and the rental value of owner-occupied homes) continued to increase at an outsized pace in July, rising 0.6%. Notably, in the past two months, rental prices for actual tenants have posted the two largest monthly increases since 1987. Rents have been a key driver for inflation in 2022, and should continue to do so in 2023-24 because they make up more than 30% of the overall CPI and still have a long way to go to catch up to home prices, which skyrocketed during COVID. Other core categories to increase in July were prices for motor vehicle insurance (+1.3%), new vehicles (+0.6%), and hospital services (+0.5%). Meanwhile, several categories that have risen sharply in prior months cooled in July, including prices for airline fares (-7.8%), hotels (-3.2%), and used vehicles (-0.4%). The best news in today’s report was real earnings increasing 0.5%, its first monthly increase in ten months. But take this with a grain of salt, as real earnings are down 3.0% in the last year, and we expect them, at very best, to remain roughly flat in the year ahead. Since February 2020 (pre-COVID), consumer prices are up at a 5.6% annual rate and core prices are up at a 4.2% rate. How did we get here? By forcing an economy to shutdown while simultaneously injecting an unprecedented amount of fiscal and monetary stimulus. Inflation has been – and always is – a monetary phenomenon. To get inflation back down to 2.0%, the Fed needs to focus less on hiking interest rates and more on getting the growth in the money supply under consistent control.



Source: Bureau of Labor Statistics/Haver Analytics



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CPI - U <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Jul-22	Jun-22	May-22	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.0%	1.3%	1.0%	9.5%	9.7%	8.5%
Ex Food & Energy	0.3%	0.7%	0.6%	6.8%	6.3%	5.9%
Ex Energy	0.4%	0.7%	0.7%	7.8%	7.2%	6.6%
Energy	-4.6%	7.5%	3.9%	29.3%	42.1%	32.9%
Food	1.1%	1.0%	1.2%	13.9%	13.0%	10.9%
Housing	0.4%	0.8%	0.8%	8.8%	8.1%	7.4%
Owners Equivalent Rent	0.6%	0.7%	0.6%	8.0%	6.7%	5.8%
New Vehicles	0.6%	0.7%	1.0%	9.3%	8.0%	10.4%
Medical Care	0.4%	0.7%	0.4%	6.2%	5.5%	4.8%
Services (Excluding Energy Services)	0.4%	0.7%	0.6%	6.9%	7.3%	5.5%
Real Average Hourly Earnings	0.5%	-0.8%	-0.6%	-3.9%	-4.6%	-3.0%

Source: U.S. Department of Labor