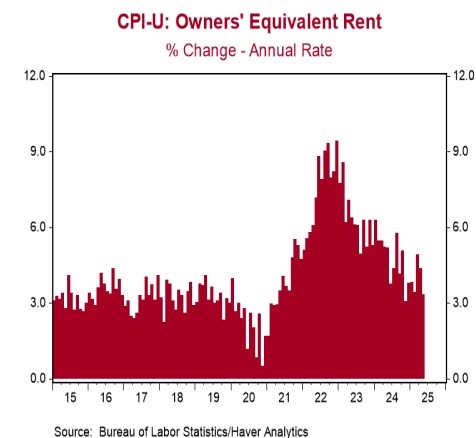
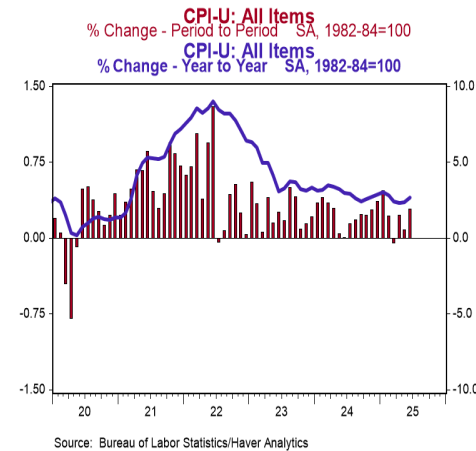


July CPI

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- The Consumer Price Index (CPI) rose 0.2% in July, matching consensus expectations. The CPI is up 2.7% from a year ago.
- Energy prices declined 1.1% in July, while food prices were unchanged. The “core” CPI, which excludes food and energy, increased 0.3% in July, also matching consensus expectations. Core prices are up 3.1% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.1% in July and are up 1.2% in the past year. Real average weekly earnings are up 1.4% in the past year.

Implications: Inflation came in as expected in July, with the Consumer Price Index rising 0.2%, and the year-ago comparison standing pat at 2.7%. “Core” prices, which strip out food and energy, rose a consensus expected 0.3%, while the twelve-month comparison moved up to 3.1%. Yes, year-ago readings remain elevated because of weak inflation data from twelve months ago, but the focus should be on the current trajectory: in the past six months, since Trump took office in January, which includes higher tariffs, overall inflation has risen at a 1.9% annualized rate, while core inflation is up at a moderate 2.4% pace. We’ve been saying for some time that tariffs do not cause inflation; they can raise prices for the tariffed items, but they leave less money left over for other goods and services. They shuffle the deckchairs on the inflation ship, not how high or low the ship sits in the water. That’s up to the money supply, which is up just over a percentage point since April 2022. We believe this relative monetary tightness, along with moderately high real rates, is why there is room for modest rate cuts. Looking at the details of the report, core prices were the main driver of July’s overall increase, but not in categories where tariff effects would typically show up. Goods prices remained subdued, with minimal changes in apparel (+0.1%), new vehicles (0.0%), and medical supplies (+0.1%). Instead, the upward push came from the services sector: airline fares surged 4.0%, the largest jump in more than three years, while dental services climbed 2.6%, marking the biggest monthly rise on record. Fed Chair Jerome Powell, at one point, highlighted “Supercore” inflation – a subset category of prices that excludes food, energy, other goods, and housing rents. Since, he has stopped talking about it, but maybe he should. Supercore prices are up at a 1.9% annualized pace in the last six months, which supports a rate cut soon. Given the lags in monetary policy and slow growth in the M2 measure of the money supply, we believe it’s time for the Fed to begin reducing short-term rates slightly in the months ahead. We expect the Fed to cut rates at their next meeting in September, but just like they were slow to raise rates during the post-COVID inflation surge, they are late to the ball game. In other news last week, nonfarm productivity (output per hour) increased at a 2.4% annual rate in the second quarter of 2025 versus a consensus expected +2.0%, as both output and hours rose, but output rose at a faster pace. In the past year, productivity is up 1.3%, a slowdown from the 3.0% rate in the year ending in Q2 2024. On the labor front, initial jobless claims rose 7,000 to 226,000, while continuing claims increased 38,000 to 1.974 million. These figures are consistent with continued job growth in August, but at a slower pace than last year.



CPI - U	Jul-25	Jun-25	May-25	3-mo % Ch.	6-mo % Ch.	Yr to Yr
<i>All Data Seasonally Adjusted Except for Yr to Yr</i>				<i>annualized</i>	<i>annualized</i>	<i>% Change</i>
Consumer Price Index	0.2%	0.3%	0.1%	2.3%	1.9%	2.7%
Ex Food & Energy	0.3%	0.2%	0.1%	2.8%	2.4%	3.1%
Ex Energy	0.3%	0.2%	0.2%	2.7%	2.4%	3.0%
Energy	-1.1%	0.9%	-1.0%	-4.3%	-5.2%	-1.6%
Food	0.0%	0.3%	0.3%	2.7%	2.4%	2.9%
Housing	0.2%	0.3%	0.3%	3.3%	4.0%	3.9%
Owners Equivalent Rent	0.3%	0.3%	0.3%	3.5%	3.9%	4.1%
New Vehicles	0.0%	-0.3%	-0.3%	-2.4%	-1.2%	0.4%
Medical Care	0.7%	0.5%	0.3%	5.7%	4.8%	3.5%
Services (Excluding Energy Services)	0.4%	0.3%	0.2%	3.2%	2.9%	3.6%
Real Average Hourly Earnings	0.1%	0.0%	0.4%	1.8%	1.4%	1.2%

Source: Bureau of Labor Statistics