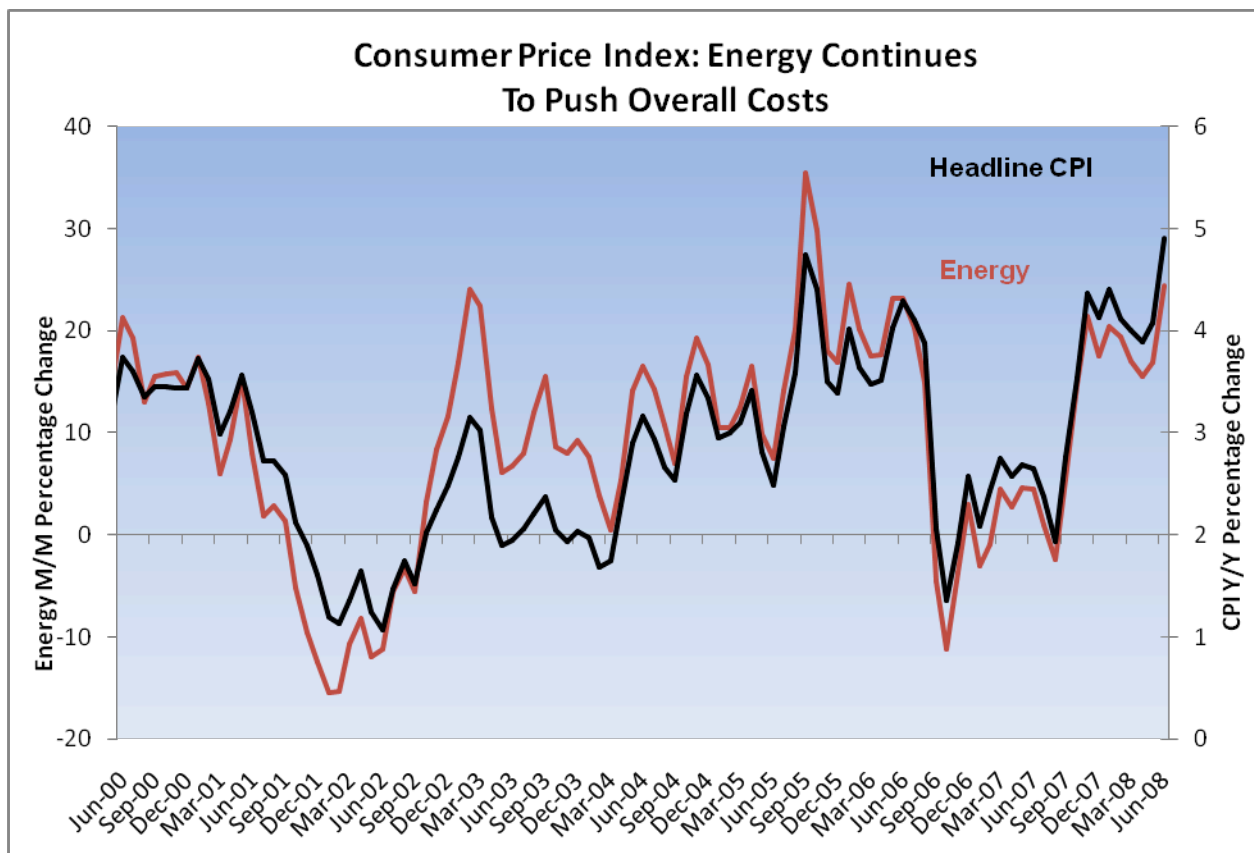




Consumer Price Index: June 2008

The consumer price index for the month of June advanced 1.1% m/m (1.056) and 5.0% (5.022) y/y and the core increased 0.3% (0.323) m/m and 2.4% (2.413) on an annual basis. The ex-food estimate matched the headline and the ex-energy measure indicated costs increased 0.4% m/m and 2.9% y/y. Energy increased 6.6% m/m and 24.7% y/y while the cost of services 0.5% and 3.7% over that same period.

Inside the data the housing component increased 0.5% m/m and 3.5% y/y and the owners equivalent rent advanced 0.3% and 2.6% over that same period. On a monthly basis fuel and utilities increased 1.8%, food and beverages 0.7% and gasoline 10.1%. Apparel was up 0.1%, transportation 3.8% and commodities 1.9%. The only major category that saw a decline in costs was the personal computer component which fell -1.4%.



The June inflation data provides absolutely zero comfort to a Fed that as of yesterday looks to have thrown in the towel on inflation. When one looks at the data there is a bit of depressing news for everyone. The headline met our expectations of a 5.0% increase, which was well above the expected 4.5% consensus. If one chooses to ignore headline costs and is a devotee of the core rate, the annual estimate was fractionally below arriving



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at 2.5%, well above the upper end of the Fed's comfort zone. More importantly, the service component, which comprises 58.7% of the survey, increased 3.7% annually and 5.1% on a 3 month annualized basis. This does suggest that we are beginning to observe a passing through of headline costs to the core and does not bode well for the Fed's preferred measure of pricing, the PCE deflator when it is published on August 4.