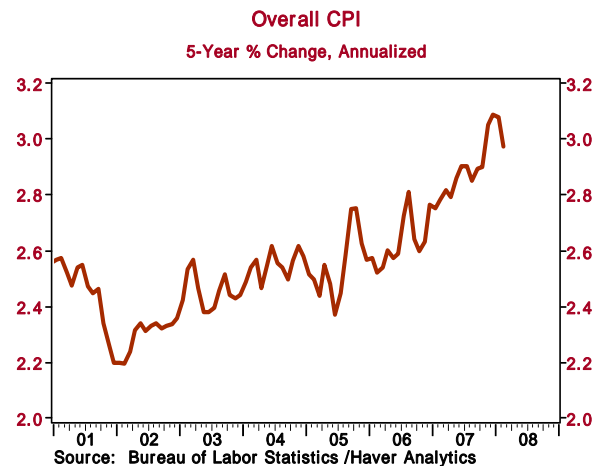
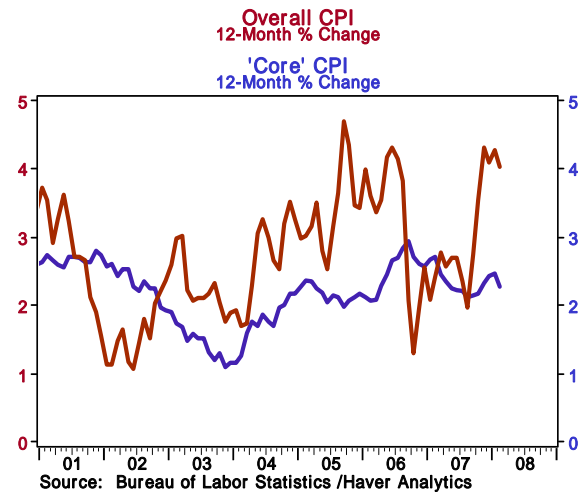


FEBRUARY CPI

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- The Consumer Price Index (CPI) was unchanged in February versus a consensus expected increase of 0.3%. The CPI is up 4.0% versus a year ago and up at a 4.7% annual rate in the past six months.
- Energy prices fell 0.5% in February but are up 18.9% versus last year. Food and beverage prices were up 0.4% in February and are up 4.5% versus last year.
- Excluding food and energy, the “core” CPI was unchanged in February. The core CPI is up 2.3% versus a year ago. Excluding just energy, the CPI was up 0.1% in February and is up 2.6% versus a year ago.
- Real average hourly earnings – the cash earnings of production workers – were up 0.2% in February but are down 0.8% versus a year ago. Year-to-year wage comparisons are likely to improve over the next few months.

Implications: The inflation threat took a breather in February but will come roaring back in March. On average, prices for energy and some other commodities (such as apparel) were lower in February than January, resulting in both the overall CPI and “core” CPI being unchanged. However, energy prices and commodities have surged in March, so the report next month will show a steep increase in the CPI. In the meantime, today’s report on the CPI makes yesterday’s report on retail sales look better, supporting our view that real GDP is growing at a 2% annual rate in the first quarter. Despite today’s benign CPI report, the Federal Reserve needs to stop ignoring inflation. The CPI is still up 4% versus a year ago, which is more than the yield on Treasury securities maturing in 10 years or less – and that’s before investors pay taxes on the interest. Monetary policy has been accommodative since late 2001, which means an already serious inflation problem will continue to worsen in the years ahead.



CPI - U <i>All Data Seasonally Adjusted</i>	Feb-08	Jan-08	Dec-07	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.0%	0.4%	0.4%	3.1%	4.7%	4.0%
Ex Food & Energy	0.0%	0.3%	0.2%	2.3%	2.5%	2.3%
Ex Energy	0.1%	0.4%	0.2%	2.7%	2.8%	2.6%
Energy	-0.5%	0.7%	1.7%	7.6%	24.3%	18.9%
Food and Beverages	0.4%	0.7%	0.1%	4.6%	4.4%	4.5%
Housing	0.2%	0.2%	0.3%	2.8%	3.1%	2.8%
Owners Equivalent Rent	0.1%	0.3%	0.3%	2.6%	2.9%	2.6%
New Vehicles	-0.3%	-0.3%	-0.1%	-2.5%	-1.7%	-0.8%
Medical Care	0.1%	0.5%	0.3%	3.9%	4.6%	4.5%
Services (Excluding Energy Services)	0.1%	0.4%	0.3%	3.1%	3.2%	3.2%
Real Average Hourly Earnings	0.2%	-0.1%	0.0%	0.5%	-1.7%	-0.8%

Source: U.S. Department of Labor