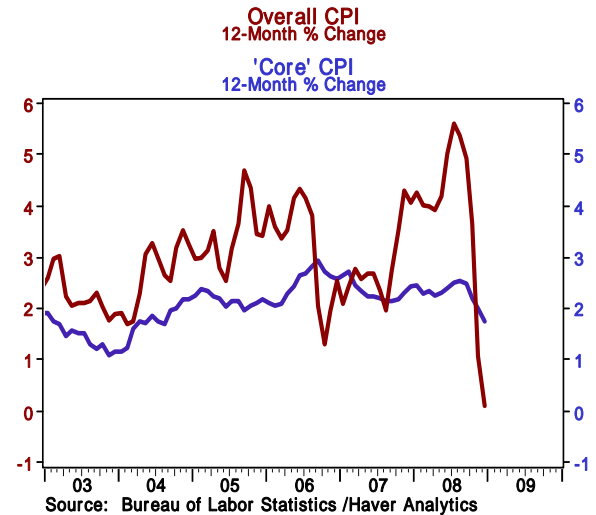


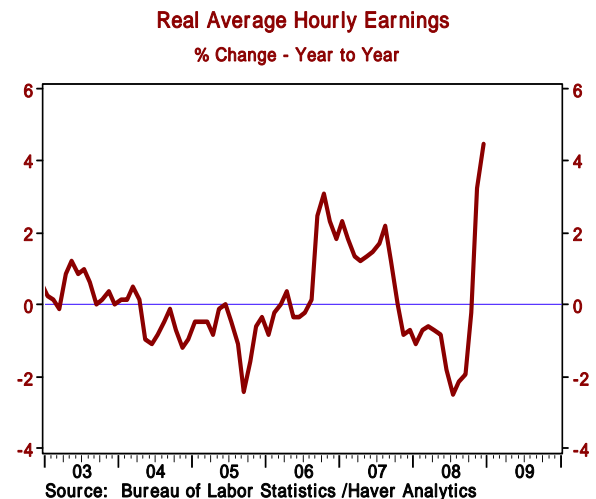
DECEMBER CPI

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- The Consumer Price Index (CPI) dropped 0.7% in December versus a consensus expected decline of 0.9%. The CPI is up 0.1% versus a year ago.
- Energy prices, which fell 8.3%, accounted for all the decline in the CPI in December. Food and beverage prices were unchanged in December and are up 5.8% versus a year ago.
- Excluding food and energy, the “core” CPI was unchanged in December and is up 1.8 % versus a year ago. Excluding energy, the CPI was unchanged in December and is up 2.4% versus a year ago.
- Real average hourly earnings – the cash earnings of production workers, adjusted for inflation – were up 1.2% in December, are up at a 23.9% annual rate in the past three months, and are up 4.5% versus a year ago.



Implications: Due to falling energy prices, overall consumer prices continued to decline in December, with the CPI down 0.7% versus November and up only 0.1% versus a year ago. That is the smallest 12-month increase since 1955. We expect December to be the last month in which consumer prices fall rapidly. But, as we drop off the month early last year when energy prices were spiking, year-to-year CPI comparisons should go negative starting next month and will stay that way deep into 2009. Energy prices caused the December drop in overall prices, while “core” prices were unchanged, held down by clothing and automobiles. Inflation is not dead; it is just hibernating. Once monetary velocity picks up, the massive liquidity the Federal Reserve has injected (and will continue to inject) into the financial system, will generate a resurgence in inflation starting late this year. Meanwhile, real (inflation-adjusted) average hourly earnings spiked 1.2% in December and are up 4.5% versus last year, the largest gain since the early 1970s. This means that despite rising unemployment and declining hours per worker, the inflation-adjusted total cash earnings of all production workers increased 0.3% in 2008, helping support consumption in the months ahead.



CPI - U <i>All Data Seasonally Adjusted</i>	Dec-08	Nov-08	Oct-08	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	-0.7%	-1.7%	-1.0%	-12.7%	-5.4%	0.1%
Ex Food & Energy	0.0%	0.0%	-0.1%	-0.3%	1.2%	1.8%
Ex Energy	0.0%	0.0%	0.0%	0.0%	1.8%	2.4%
Energy	-8.3%	-17.0%	-8.6%	-76.6%	-52.8%	-21.3%
Food and Beverages	0.0%	0.2%	0.3%	1.7%	5.0%	5.8%
Housing	0.0%	-0.1%	0.0%	-0.7%	0.6%	2.4%
Owners Equivalent Rent	0.1%	0.3%	0.1%	2.0%	2.0%	2.1%
New Vehicles	-0.4%	-0.6%	-0.5%	-5.7%	-4.9%	-3.2%
Medical Care	0.3%	0.2%	0.2%	2.8%	2.6%	2.6%
Services (Excluding Energy Services)	0.1%	0.1%	0.0%	1.0%	2.1%	2.7%
Real Average Hourly Earnings	1.2%	2.6%	1.6%	23.9%	11.8%	4.5%

Source: U.S. Department of Labor