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January CPI

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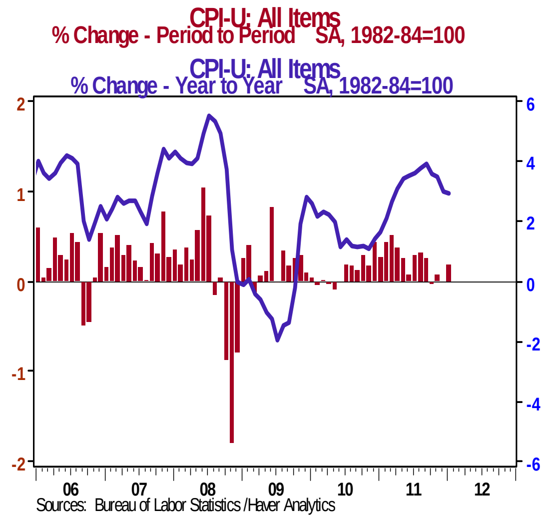
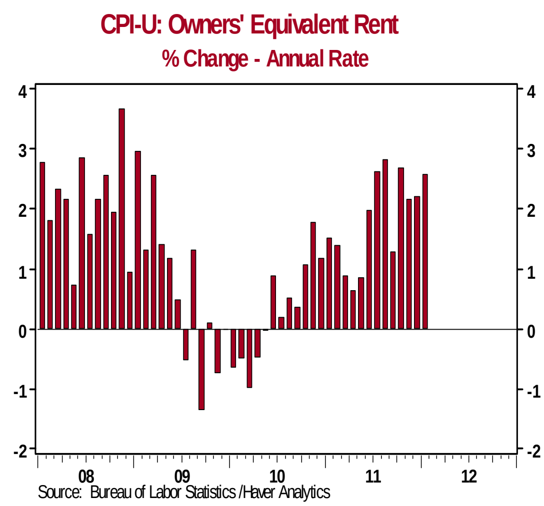
- The Consumer Price Index (CPI) increased 0.2% in January versus a consensus expected gain of 0.3%. The CPI is up 2.9% versus a year ago.
- "Cash" inflation (which excludes the government's estimate of what homeowners would charge themselves for rent) was also up 0.2% in January, and is up 3.3% in the past year.
- The increase in the CPI was due to widespread gains in all major categories, including food and energy, each up 0.2%. The "core" CPI, which excludes food and energy, was up 0.2%, matching consensus expectations, and are up 2.3% versus last year.
- Real average hourly earnings – the cash earnings of all employees, adjusted for inflation – were unchanged in January and are down 1.0% in the past year. Real *weekly* earnings are down 0.4% in the past year.

Implications: Consumer prices rose in January, but the 0.2% increase was slightly less than the consensus expected. In the past three months, energy prices have dropped and so consumer prices are up at only a 1.2% annual rate. This is a stark contrast to the same three months a year ago, when consumer prices were rising at a 3.7% rate. As a result, year-ago price comparisons have been decelerating. Back in October, consumer prices were up 3.6% from a year ago; now prices are up 2.9% from a year ago. This deceleration is likely to continue into the Spring, which means prices will still be rising, but not as quickly as they were the same time a year ago. Do not expect the respite from higher inflation to last. Monetary policy is very loose and we are already seeing a resurgence in oil and gas prices. In addition, housing costs (which are measured by rents, not asset values) are rising as well. Owners' equivalent rent, was up 0.2% in January and is up at a 2.3% annual rate in the past six months. The ongoing shift from home ownership toward rental occupancy should boost this inflation measure even more in the year ahead. Meanwhile, "core" inflation, at 2.3% in the past year, is above the Federal Reserve's target. With loose monetary policy and housing costs accelerating, it's hard to see core inflation getting back down to the Fed's 2% target anytime soon. On the earnings front, "real" (inflation-adjusted) wages per hour were flat in January. Although these earnings are down 1% from a year ago, the number of hours worked is up 2.7%, giving consumers more purchasing power. No justification here for a third round of quantitative easing.





CPI - U *All Data Seasonally Adjusted*	Jan-12	Dec-11	Nov-11	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.2%**	0.0%	0.1%	1.2%	1.8%	2.9%
Ex Food & Energy	**0.2%**	0.1%	0.2%	2.2%	2.1%	2.3%
Ex Energy	**0.2%**	0.2%	0.2%	2.1%	2.3%	2.6%
Energy	**0.2%**	-1.3%	-0.5%	-6.7%	-2.6%	6.1%
Food and Beverages	**0.2%**	0.2%	0.1%	2.1%	3.2%	4.2%
Housing	**0.1%**	0.1%	0.1%	1.6%	1.9%	1.9%
Owners Equivalent Rent	**0.2%**	0.2%	0.2%	2.3%	2.3%	1.8%
New Vehicles	**0.0%**	-0.2%	-0.2%	-1.6%	-1.4%	3.2%
Medical Care	**0.3%**	0.3%	0.4%	4.1%	3.8%	3.6%
Services (Excluding Energy Services)	**0.2%**	0.2%	0.2%	2.7%	2.6%	2.3%
Real Average Hourly Earnings	**0.0%**	0.1%	0.0%	0.4%	-0.4%	-1.0%

Source: U.S. Department of Labor