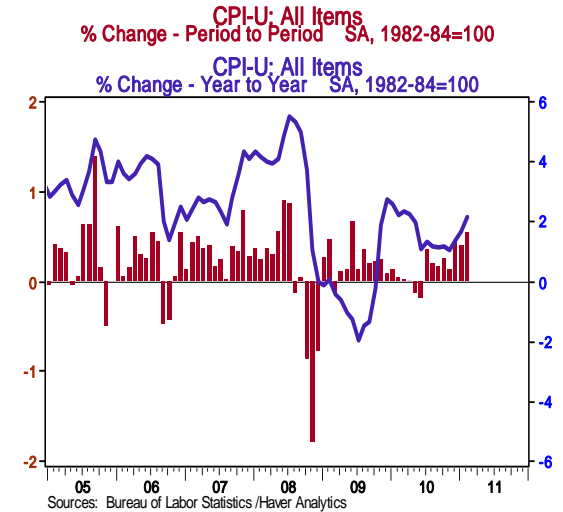


FEBRUARY CPI

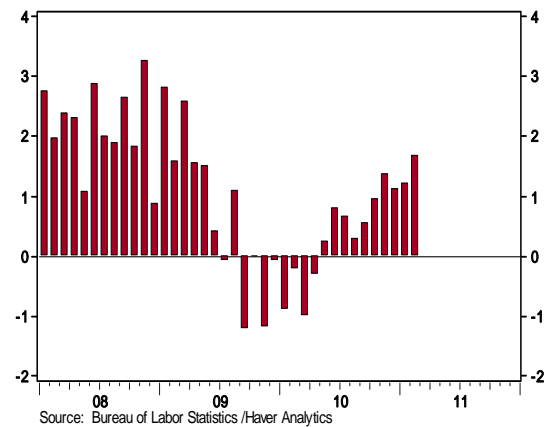
Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- The Consumer Price Index (CPI) increased 0.5% in February, more than the consensus expected gain of 0.4%. The CPI is up 2.1% versus a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) was up 0.7% in February and is up 2.6% in the past year.
- The majority of the increase in the CPI in February was due to energy, which increased 3.4%. Food prices were up 0.6%. Excluding food and energy, the “core” CPI increased 0.2%, higher than consensus expectations. Core prices are up 1.1% versus last year.
- Real average hourly earnings – the cash earnings of all employees, adjusted for inflation – fell 0.5% in February and are down 0.4% in the past year. Due to an increase in work hours, real *weekly* earnings are up 0.2% in the past year.



Implications: Consumer price inflation is accelerating, rising 0.5% in February. Although consumer prices are up only 2.1% in the past year, they’re up at a 3.9% annual rate in the past six months and a 5.6% rate in the past three months. We like to follow “cash inflation,” which is everything in the CPI except for owners’ equivalent rent (the government’s estimate of what homeowners would pay if they rented their own homes). Cash inflation increased 0.6% in January and is up at a 7% annual rate in the past three months. Even “core” inflation, which excludes food and energy, is accelerating. Core prices rose 0.2% for the second straight month and are up at a 1.8% annual rate in the past three months. With easy money from the Fed, we expect persistent increases in the CPI throughout 2011 and beyond. In other news this morning, new claims for unemployment insurance declined 16,000 last week to 385,000. The four-week moving average fell to 386,000, the lowest since July 2008. Continuing claims for regular benefits declined 80,000 to 3.71 million. The labor market continues to improve and private sector payrolls will continue to move higher.

CPI-U: Owners' Equivalent Rent
% Change - Annual Rate



CPI - U <i>All Data Seasonally Adjusted</i>	Feb-11	Jan-11	Dec-10	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.5%	0.4%	0.4%	5.6%	3.9%	2.1%
<i>Ex Food & Energy</i>	0.2%	0.2%	0.1%	1.8%	1.2%	1.1%
<i>Ex Energy</i>	0.3%	0.2%	0.1%	2.2%	1.6%	1.3%
Energy	3.4%	2.1%	4.0%	45.1%	29.6%	11.0%
<i>Food and Beverages</i>	0.5%	0.5%	0.1%	4.7%	3.5%	2.2%
<i>Housing</i>	0.3%	0.1%	0.2%	2.0%	1.2%	0.7%
<i>Owners Equivalent Rent</i>	0.1%	0.1%	0.1%	1.3%	1.1%	0.6%
<i>New Vehicles</i>	1.0%	-0.1%	-0.1%	2.8%	1.1%	0.9%
<i>Medical Care</i>	0.4%	0.1%	0.2%	3.1%	3.4%	2.9%
<i>Services (Excluding Energy Services)</i>	0.2%	0.1%	0.1%	2.0%	1.7%	1.5%
Real Average Hourly Earnings	-0.5%	0.0%	-0.4%	-3.4%	-2.1%	-0.4%

Source: U.S. Department of Labor