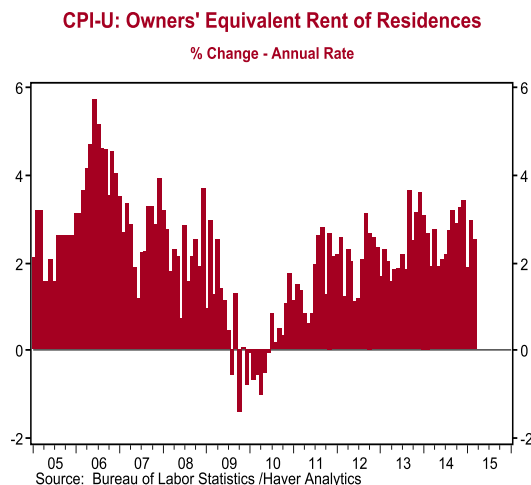
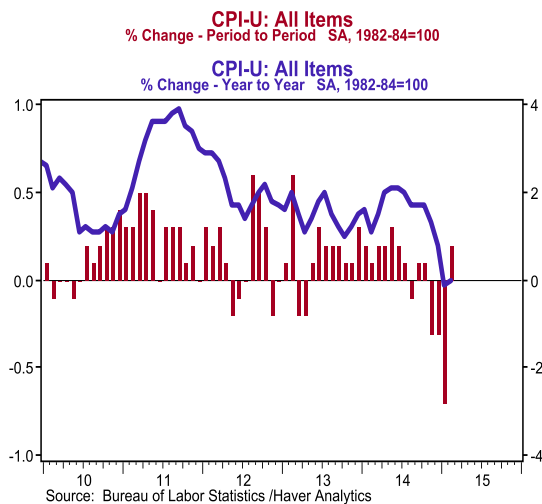


# February CPI

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- The Consumer Price Index (CPI) increased 0.2% in February, matching consensus expectations. The CPI is unchanged versus a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) rose 0.2% in February, but is down 0.9% in the past year.
- Energy prices increased 1.0% in February, while food prices rose 0.2%. The “core” CPI, which excludes food and energy, increased 0.2% in February versus a consensus expected gain of 0.1%. Core prices are up 1.7% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – declined 0.1% in February but are up 2.1% in the past year. Real *weekly* earnings are up 2.6% in the past year.

**Implications:** Coming off the largest three-month decline since the Panic in 2008-09, broad-based gains led the consumer price index higher in February. Almost every category showed rising prices for the month, but the largest contributor was energy, which rose 1%, the first increase in energy prices in eight months. “Core” prices, which exclude food and energy, increased 0.2% in February and are up 1.7% from a year ago, which is why the Federal Reserve should remain concerned about future increases in inflation even though overall consumer prices are unchanged from a year ago. The reason overall consumer prices are unchanged is that energy prices have dropped 18.8% in the past year. Excluding energy, prices are up 1.9%, very close to the Fed’s 2% target for inflation. Some analysts will use the fact that overall prices are unchanged since a year ago to warn about “Deflation.” But true deflation – of the kind we ought to be concerned about – is caused by overly tight monetary policy and price declines that are widespread, not isolated to one sector of the economy. Think of the Great Depression. While energy has declined steeply, there are sectors where prices are rising faster. Food prices have risen 3% in the past 12 months, so if you only use the supermarket to gauge inflation, we understand thinking the headline reports are too low and “true” inflation is higher. In addition, housing costs are going up. Owners’ equivalent rent, which makes up about ¼ of the CPI, rose 0.2% in February, is up 2.7% in the past year, and will be a key source of higher inflation in the year ahead. The worst pieces of news in today’s report was that “real” (inflation-adjusted) average hourly earnings declined 0.1% in February. However, these earning are up a healthy 2.1% in the past year and have been growing at a faster 3.9% over the past six months, signaling that consumer purchasing power continues to grow.



<b>CPI - U</b> <i>All Data Seasonally Adjusted</i>	<b>Feb-15</b>	<b>Jan-15</b>	<b>Dec-14</b>	<b>3-mo % Ch.</b> <b>annualized</b>	<b>6-mo % Ch.</b> <b>annualized</b>	<b>Yr to Yr</b> <b>% Change</b>
<b>Consumer Price Index</b>	<b>0.2%</b>	-0.7%	-0.3%	-3.1%	-1.9%	0.0%
<b>Ex Food &amp; Energy</b>	<b>0.2%</b>	0.2%	0.1%	1.6%	1.6%	1.7%
<b>Ex Energy</b>	<b>0.2%</b>	0.1%	0.1%	1.6%	1.7%	1.9%
<b>Energy</b>	<b>1.0%</b>	-9.7%	-4.7%	-43.0%	-33.3%	-18.8%
<b>Food and Beverages</b>	<b>0.1%</b>	-0.1%	0.2%	1.2%	2.1%	2.8%
<b>Housing</b>	<b>0.2%</b>	0.1%	0.2%	2.1%	2.1%	2.2%
<b>Owners Equivalent Rent</b>	<b>0.2%</b>	0.2%	0.2%	2.6%	2.7%	2.7%
<b>New Vehicles</b>	<b>0.2%</b>	-0.1%	0.0%	0.0%	0.3%	0.6%
<b>Medical Care</b>	<b>0.0%</b>	0.0%	0.4%	1.8%	2.5%	2.3%
<b>Services (Excluding Energy Services)</b>	<b>0.1%</b>	0.3%	0.2%	2.3%	2.4%	2.5%
<b>Real Average Hourly Earnings</b>	<b>-0.1%</b>	1.2%	0.1%	5.1%	3.9%	2.1%

Source: U.S. Department of Labor