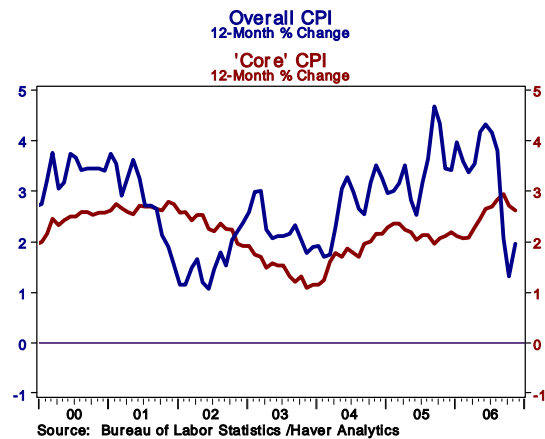


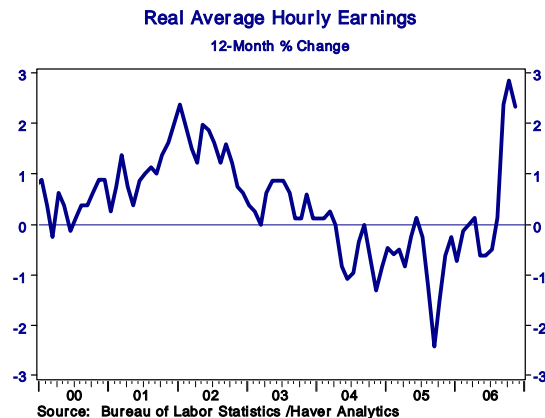
## NOVEMBER CPI

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- The Consumer Price Index (CPI) was unchanged in November on a seasonally-adjusted basis after two consecutive 0.5% energy-price-driven declines. The consensus expected an increase of 0.2%. The CPI is up 2.0% versus a year ago, but down at a 3.9% annualized rate in the past three months.
- Excluding food and energy, “core” prices were also unchanged in November but are still up 2.6% versus a year ago, which is above the Fed’s comfort zone. Transportation sector prices, which fell 0.9%, were the biggest driver of the soft November inflation data. New vehicle prices fell 0.7%, while gasoline surprised to the downside, falling 1.6%. Excluding transportation, the overall CPI would have climbed the expected 0.2%.
- Real average hourly earnings increased 0.2% in November after two straight 1% gains in September and October. Real average hourly earnings are up 2.2% versus a year ago. In the past six months, these earnings have increased 4.7% at an annual rate, the fastest pace for any 6-month period since the early 1970s.



**Implications:** Despite benign consumer price data over the past three months, our models continue to suggest that inflationary pressures remain a threat. Market prices and economic data never move in a straight line. In any longer-term trend there are bound to be short-term deviations. We saw this phenomenon with some slower economic data in the spring and summer of this year. And now, in October and November, measured “core” CPI has also moved away from its trend. With monetary policy having been too loose for too long, we continue to expect core inflation to trend upward over the course of 2007. In fact, the Cleveland Fed’s measure of median CPI inflation, which does a better job of picking up underlying inflation trends, rose 0.25% in November and is up 3.7% versus a year ago. While the market has chosen to view today’s data as a sign that Fed rate cuts may be more likely, we believe this conclusion is unwarranted.



CPI - U <i>all data seasonally adjusted</i>	Nov-06	Oct-06	Sep-06	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr over Yr % Ch
<b>Consumer Price Index</b>	<b>0.0%</b>	-0.5%	-0.5%	-3.9%	-0.2%	2.0%
<b>Ex Food &amp; Energy</b>	<b>0.0%</b>	0.1%	0.2%	1.6%	2.3%	2.6%
<b>Ex Energy</b>	<b>0.0%</b>	0.1%	0.2%	1.8%	2.4%	2.5%
<b>Energy</b>	<b>-0.2%</b>	-7.0%	-7.2%	-44.9%	-22.4%	-3.8%
<b>Food and Beverages</b>	<b>-0.1%</b>	0.3%	0.4%	2.3%	2.7%	2.3%
<b>Housing</b>	<b>0.4%</b>	0.0%	0.3%	3.0%	3.2%	3.0%
<b>Owners Equivalent Rent</b>	<b>0.3%</b>	0.4%	0.3%	4.1%	4.3%	4.3%
<b>New Vehicles</b>	<b>-0.7%</b>	-0.1%	-0.1%	-3.7%	-1.9%	-0.9%
<b>Medical Care</b>	<b>0.2%</b>	0.3%	0.3%	3.2%	3.4%	3.7%
<b>Services (excluding Energy Services)</b>	<b>0.2%</b>	0.3%	0.3%	3.5%	3.7%	3.7%
<b>Real Average Hourly Earnings</b>	<b>0.2%</b>	1.0%	1.0%	9.1%	4.7%	2.2%
<b>Real Average Weekly Earnings</b>	<b>0.2%</b>	1.3%	1.0%	10.4%	5.3%	2.2%

Source: U.S. Department of Labor