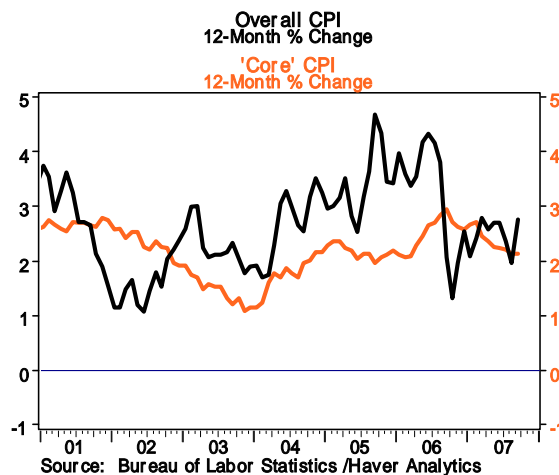


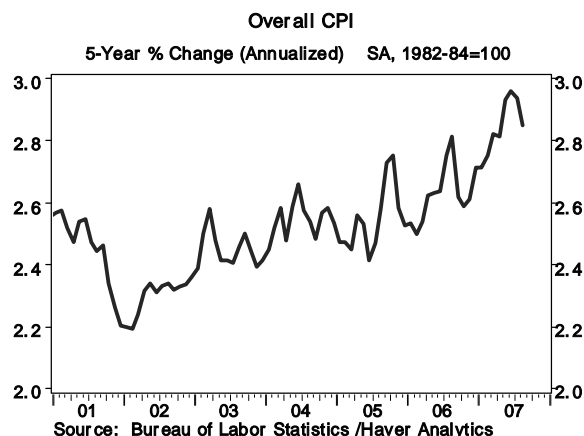
SEPTEMBER CPI

Chief Economist – Brian S. Wesbury
 Senior Economist – Robert Stein, CFA
 Economic Research Analyst – Trevor Scott

- The Consumer Price Index (CPI) increased 0.3% in September versus a consensus expected rise of 0.2%. The CPI is up 2.8% versus a year ago.
- Energy prices increased 5.3% in September and food and beverage prices increased 4.4%. Excluding food and energy, the core CPI was up 0.2%, as the consensus expected. The core CPI is up 2.1% versus a year ago. Excluding just energy, the CPI was up 0.3% in September and 2.5% versus a year ago.
- Real average hourly earnings – the cash earnings of production workers – increased 0.1% in September and are up 1.3% versus last year.



Implications: After a lull caused by a temporary plunge in commodity prices in autumn 2006, year-to-year measures of inflation are again signaling danger. The consumer price index is up 2.8% versus a year ago. Over the same period, producer prices are up 4.4% and import prices up 5.2%. The rise in the year-to-year CPI is not just a function of unusually weak prices in September/October last year contaminating the twelve-month comparisons. The CPI is up at a 3.1% annual rate in the past six months and up at a 3.5% rate or higher for the past 7, 8, 9, 10, and 11 months. The core CPI is up 2.1% versus last year, but we continue to believe that in an era of persistently higher food and energy prices that core measures of inflation hide the underlying trend rather than reveal it. Meanwhile, real average hourly earnings are up 3.7% in the past two years. With the exception of 1997-99, this is the fastest increase in cash wages since the early 1970s. These gains, along with higher equity prices, will help support consumer spending even as home values fall.



CPI - U <i>All Data Seasonally Adjusted</i>	Sep-07	Aug-07	Jul-07	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.3%	-0.1%	0.1%	1.0%	3.1%	2.8%
Ex Food & Energy	0.2%	0.2%	0.2%	2.5%	2.4%	2.1%
Ex Energy	0.3%	0.2%	0.2%	2.8%	2.8%	2.5%
Energy	0.3%	-3.2%	-1.0%	-14.8%	6.4%	5.3%
Food and Beverages	0.5%	0.4%	0.3%	4.6%	4.8%	4.4%
Housing	0.3%	0.0%	0.2%	1.6%	2.3%	2.9%
Owners Equivalent Rent	0.3%	0.2%	0.2%	2.7%	2.3%	2.9%
New Vehicles	-0.3%	0.1%	0.0%	-0.6%	-0.7%	-1.0%
Medical Care	0.3%	0.5%	0.6%	6.0%	4.9%	4.6%
Services (Excluding Energy Services)	0.3%	0.2%	0.3%	3.3%	3.4%	3.3%
Real Average Hourly Earnings	0.1%	0.5%	0.2%	3.4%	1.0%	1.3%

Source: U.S. Department of Labor