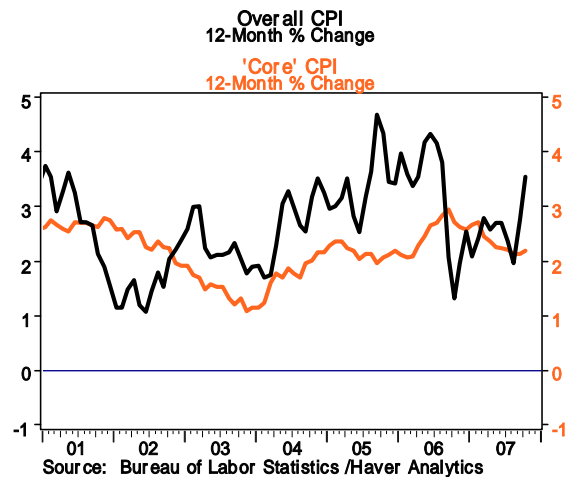


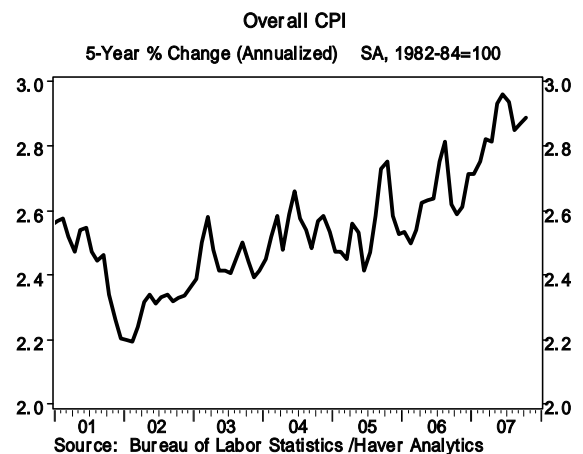
OCTOBER CPI

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- The Consumer Price Index (CPI) increased 0.3% in October, as the consensus expected. The CPI is up 3.5% versus a year ago.
- Energy prices increased 1.4% in October while food and beverage prices increased 0.3%. Excluding food and energy, the core CPI was up 0.2%, as the consensus expected. The core CPI is up 2.2% versus a year ago. Excluding just energy, the CPI was up 0.2% in October and 2.5% versus a year ago.
- Real average hourly earnings – the cash earnings of production workers – were down 0.1% in October and are unchanged versus last year. However, year-to-year wage comparisons will improve substantially over the next several months.



Implications: Consumer prices are up 3.5% versus last year. Worse, the year-to-year comparisons will probably move higher during the next few months. Meanwhile, producer prices are up 6.0% and import prices up 9.6%, both versus last year. The core CPI is up 2.2% in the past twelve months. However, we continue to believe that in an era of persistently higher food and energy prices, core measures of inflation hide the underlying trend rather than reveal it. Other news this morning was mixed on real economic activity. On the positive side, the Empire State Index, which measures manufacturing activity in the state of New York, came in at 27.4 in November, higher than the consensus expected level of 19.0. (A level above zero signals expansion; a level below zero signals contraction.) On the negative side, new claims for unemployment insurance increased 20,000 last week to 339,000, matching the highest level since April. Continuing claims dropped 7,000 to 2.568 million but are still 45,000 above the level three weeks ago.



CPI - U <i>All Data Seasonally Adjusted</i>	Oct-07	Sep-07	Aug-07	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.3%	0.3%	-0.1%	1.7%	2.8%	3.5%
<i>Ex Food & Energy</i>	0.2%	0.2%	0.2%	2.1%	2.3%	2.2%
<i>Ex Energy</i>	0.2%	0.3%	0.2%	2.6%	2.7%	2.5%
Energy	1.4%	0.3%	-3.2%	-6.1%	4.4%	14.5%
<i>Food and Beverages</i>	0.3%	0.5%	0.4%	4.7%	4.5%	4.4%
<i>Housing</i>	0.2%	0.3%	0.0%	1.9%	2.3%	3.1%
<i>Owners Equivalent Rent</i>	0.2%	0.3%	0.2%	3.0%	2.4%	2.8%
<i>New Vehicles</i>	-0.2%	-0.3%	0.1%	-1.6%	-1.2%	-1.1%
<i>Medical Care</i>	0.6%	0.3%	0.5%	5.7%	5.3%	4.8%
<i>Services (Excluding Energy Services)</i>	0.2%	0.3%	0.2%	3.1%	3.3%	3.2%
Real Average Hourly Earnings	-0.1%	0.0%	0.5%	1.5%	1.0%	0.0%

Source: U.S. Department of Labor