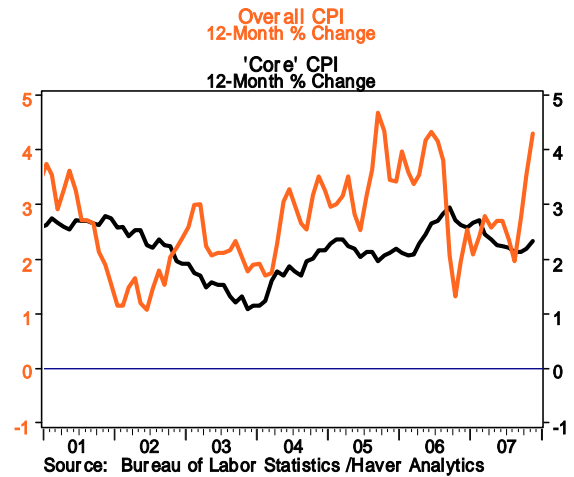


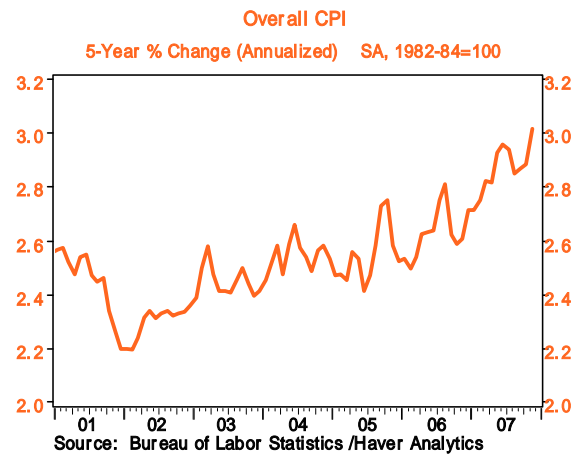
NOVEMBER CPI

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

- The Consumer Price Index (CPI) increased 0.8% in November versus a consensus expected 0.6%. The CPI is up 4.3% versus a year ago.
- Energy prices increased 5.7% in November while food and beverage prices increased 0.3%. Excluding food and energy, the core CPI was up 0.3% versus a consensus expected 0.2%. The core CPI is up 2.3% versus a year ago. Excluding just energy, the CPI was up 0.3% in November and 2.7% versus a year ago.
- Real average hourly earnings – the cash earnings of production workers – were down 0.4% in November and are down 0.8% versus last year. However, year-to-year wage comparisons should improve substantially over the next several months.



Implications: More bad news on the inflation front. Consumer prices soared 0.8% in November. With the exception of the month affected by Hurricanes Katrina/Rita, this is the largest single-month increase since Iraq invaded Kuwait in mid-1990. This time, we can't blame a natural disaster or a war. Bad monetary policy is the problem and the only solution is tighter money. Consumer prices are up 4.3% versus last year, which is higher than the yield on the 10-year Treasury, and that's before investors pay taxes on the interest. Since 1960, and with the exception of Hurricanes Katrina/Rita, a negative *pre-tax* interest rate on the 10-year Treasury has only happened in 1973-1980, which is not a model period for fighting inflation. Inflation has also persistently run higher than the TIPS spread, suggesting nominal Treasury securities have under-compensated investors for inflation. The core CPI is up 2.3% in the past twelve months but increased 0.3% in November, the most in 17 months. After bottoming in late 2001, the trend in the 5-year inflation rate has been up and is now the highest since 1995.



CPI - U <i>All Data Seasonally Adjusted</i>	Nov-07	Oct-07	Sep-07	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.8%	0.3%	0.3%	5.6%	3.1%	4.3%
Ex Food & Energy	0.3%	0.2%	0.2%	2.6%	2.6%	2.3%
Ex Energy	0.3%	0.2%	0.3%	2.9%	2.9%	2.7%
Energy	5.7%	1.4%	0.3%	33.8%	5.0%	21.4%
Food and Beverages	0.3%	0.3%	0.5%	4.1%	4.4%	4.7%
Housing	0.4%	0.2%	0.3%	3.6%	2.8%	3.1%
Owners Equivalent Rent	0.3%	0.2%	0.3%	3.4%	2.9%	2.8%
New Vehicles	0.1%	-0.2%	-0.3%	-1.4%	-0.5%	-0.4%
Medical Care	0.4%	0.6%	0.3%	5.2%	5.4%	5.0%
Services (Excluding Energy Services)	0.3%	0.2%	0.3%	3.5%	3.4%	3.3%
Real Average Hourly Earnings	-0.4%	-0.4%	0.0%	-2.8%	0.7%	-0.8%

Source: U.S. Department of Labor