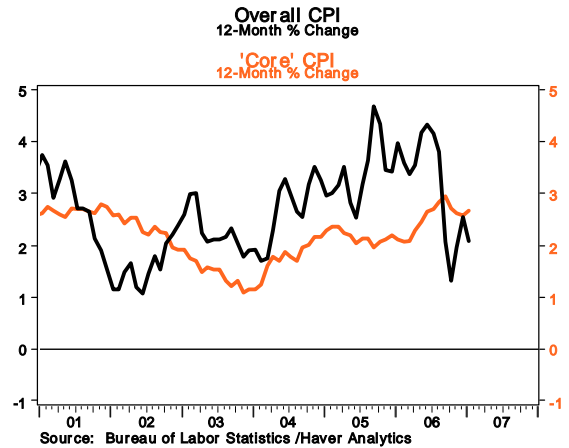


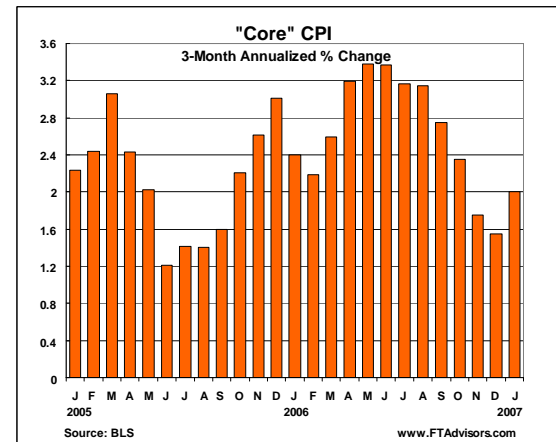
JANUARY CPI

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- The Consumer Price Index (CPI) increased 0.2% in January, more than the consensus expectation of 0.1%. The CPI is up 2.1% versus a year ago.
- Energy prices fell 1.5% in January. Excluding energy, the CPI was up 0.3%.
- The “core” CPI, which excludes both food and energy, was also up 0.3%, the largest increase in seven months. The consensus expected an increase of 0.2%. The “core” CPI is 2.7% above its level of one year ago.



Implications: Last year’s temporary slowdown in inflation is over. The three-month annualized change in the core CPI dropped from 3.4% in May 2006 to 1.6% in December, probably related to the correction in the housing market. This trend has now turned and the 3-month rate of change in the core CPI rose to 2% in January. We expect more acceleration ahead. Some analysts suggest the January increase in core inflation was attributable to special one-time factors with medical care and tobacco. However, those two components of the CPI, combined, added only 0.07 percentage points to January inflation. The 2.7% increase in core inflation versus last year is near the highest since 1997, bolstering our view that the Fed’s next move will be to raise rates, not cut them.



CPI - U <i>All Data Seasonally Adjusted</i>	Jan-07	Dec-06	Nov-06	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.2%	0.4%	0.0%	2.7%	0.0%	2.1%
<i>Ex Food & Energy</i>	0.3%	0.1%	0.1%	2.0%	2.2%	2.7%
<i>Ex Energy</i>	0.3%	0.1%	0.1%	2.2%	2.3%	2.6%
Energy	-1.5%	4.2%	-0.2%	10.1%	-20.9%	-3.1%
Food and Beverages	0.7%	-0.1%	-0.1%	2.5%	3.0%	2.4%
Housing	0.2%	0.4%	0.4%	4.4%	3.4%	3.0%
Owners Equivalent Rent	0.2%	0.3%	0.4%	3.5%	3.8%	4.3%
New Vehicles	0.0%	-0.1%	-0.6%	-2.7%	-2.2%	-1.2%
Medical Care	0.8%	0.2%	0.2%	5.0%	4.3%	4.3%
Services (Excluding Energy Services)	0.3%	0.2%	0.3%	3.4%	3.5%	3.8%
Real Average Hourly Earnings	0.0%	-0.1%	0.2%	0.5%	4.5%	1.9%
Real Average Weekly Earnings	-0.3%	0.2%	0.0%	-0.4%	3.8%	0.8%

Source: U.S. Department of Labor