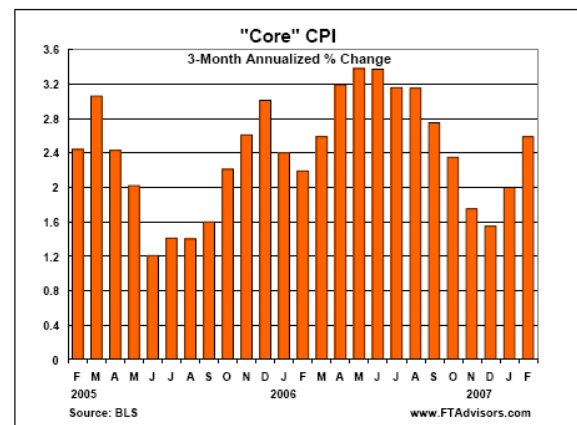
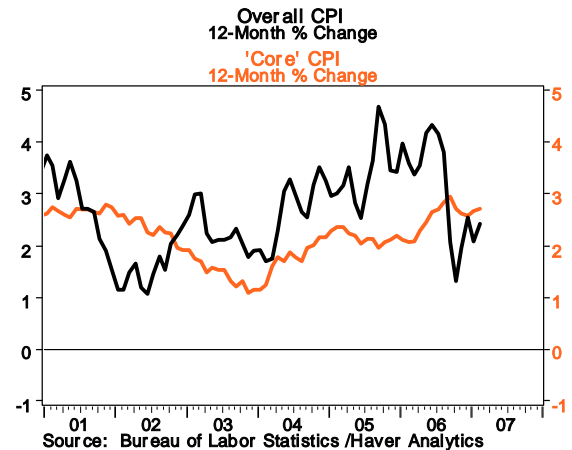


FEBRUARY CPI

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- The Consumer Price Index (CPI) increased 0.4% in February, more than the consensus expectation of 0.3%. The CPI is up 2.4% versus a year ago.
- Energy prices increased 0.9% in February. Excluding energy, the CPI was up 0.3%. Excluding food and energy, the core CPI was up 0.2% in February and 2.7% versus a year ago, both as the consensus expected.
- The largest contributions to CPI inflation in February – factoring-in both the percentage change and the size of each expenditure category – were made by food (up 0.8%), energy (up 0.9%), and owners equivalent rent for owner-occupied homes (up 0.3%). Medical care went up 0.5% but has a small weight in the CPI series as little is paid out-of-pocket.



Implications: The acceleration of inflation continues after a temporary lull last year. The three-month annualized change in the core CPI dropped from 3.4% in May 2006 to 1.6% in December. In the first two months of 2007, the 3-month rate of change in the core CPI has risen back up to 2.6. We expect more acceleration ahead. Coming on the heels of yesterday's report of a 1.3% gain in producer prices (0.4% for the core), it should be getting clearer to the markets that the Fed's next move will be to raise rates, not cut them. One bright note, is that medical care commodity prices dropped 0.3% in February, the largest one-month drop in 40 years of data. These prices are up only 1.6% versus a year ago, suggesting there will be less political pressure for legislation to control prescription drug costs.

CPI - U <i>All Data Seasonally Adjusted</i>	Feb-07	Jan-07	Dec-06	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.4%	0.2%	0.4%	4.0%	0.1%	2.4%
<i>Ex Food & Energy</i>	0.2%	0.3%	0.1%	2.6%	2.2%	2.7%
<i>Ex Energy</i>	0.3%	0.3%	0.1%	3.1%	2.4%	2.7%
Energy	0.9%	-1.5%	4.2%	14.9%	-20.1%	-1.0%
Food and Beverages	0.8%	0.7%	-0.1%	5.9%	4.1%	3.1%
Housing	0.4%	0.2%	0.4%	4.2%	3.6%	3.3%
Owners Equivalent Rent	0.3%	0.2%	0.3%	3.2%	3.7%	4.2%
New Vehicles	-0.1%	0.0%	-0.1%	-0.9%	-2.2%	-1.4%
Medical Care	0.5%	0.8%	0.2%	6.0%	4.6%	4.3%
Services (Excluding Energy Services)	0.3%	0.3%	0.2%	3.5%	3.5%	3.8%
Real Average Hourly Earnings	0.0%	0.0%	0.0%	0.0%	4.7%	1.8%
Real Average Weekly Earnings	-0.3%	-0.3%	0.3%	-1.2%	3.9%	1.5%

Source: U.S. Department of Labor