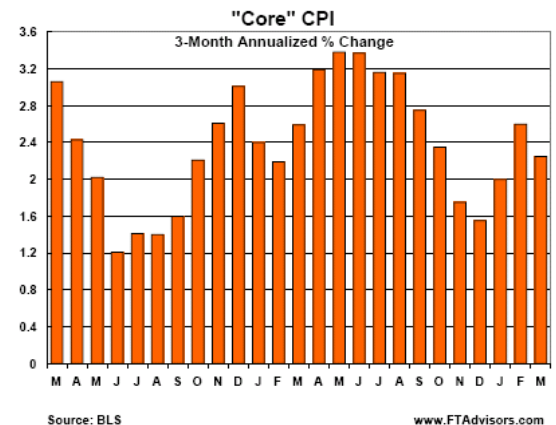
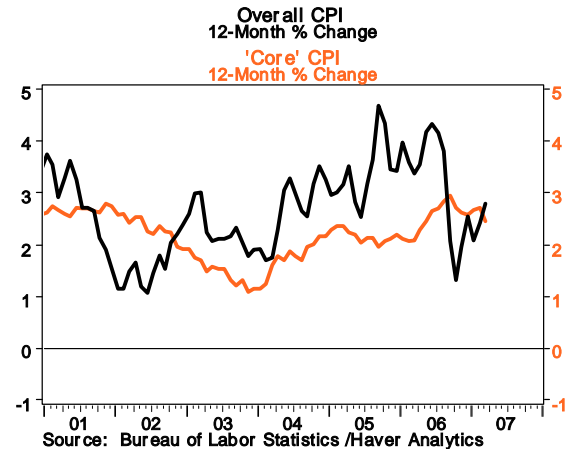


## MARCH CPI

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- The Consumer Price Index (CPI) increased 0.6% in March, exactly as the consensus expected. The CPI is up 2.8% versus a year ago.
- Energy prices increased 5.9% in March. Excluding food and energy, the core CPI was up 0.1% in March and 2.5% versus a year ago, both lower than the consensus expected.
- Core CPI inflation was held down by apparel and lodging away from home (hotels). Apparel prices dropped 1.0% (the second largest decline in more than seventeen years) and lodging away from home dropped 2.3%. Without these two components, the core CPI would have been up 0.2%, as expected.

**Implications:** The acceleration of overall inflation continues, with the three-month annualized change in the CPI up to 4.7% in March after hitting a low of -3.7% in November 2006. Although the core CPI increase of 0.1% was more benign than expected, we foresee worse readings in the months ahead. The link between loose monetary policy and higher inflation is long and variable. So even within the context of accelerating inflation there will be months where the data throw a head fake. Our advice is to not get fooled.



CPI - U <i>All Data Seasonally Adjusted</i>	Mar-07	Feb-07	Jan-07	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Consumer Price Index</b>	<b>0.6%</b>	0.4%	0.2%	4.7%	2.4%	2.8%
<i>Ex Food &amp; Energy</i>	<b>0.1%</b>	0.2%	0.3%	2.3%	1.9%	2.5%
<i>Ex Energy</i>	<b>0.1%</b>	0.3%	0.3%	2.9%	2.2%	2.6%
<i>Energy</i>	<b>5.9%</b>	0.9%	-1.5%	22.9%	4.3%	4.4%
<i>Food and Beverages</i>	<b>0.3%</b>	0.8%	0.7%	7.4%	4.0%	3.3%
<i>Housing</i>	<b>0.2%</b>	0.4%	0.2%	3.5%	3.4%	3.4%
<i>Owners Equivalent Rent</i>	<b>0.3%</b>	0.3%	0.2%	3.1%	3.6%	4.1%
<i>New Vehicles</i>	<b>0.3%</b>	-0.1%	0.0%	0.6%	-1.3%	-1.1%
<i>Medical Care</i>	<b>0.1%</b>	0.5%	0.8%	5.6%	4.2%	4.0%
<i>Services (Excluding Energy Services)</i>	<b>0.1%</b>	0.3%	0.3%	2.9%	3.1%	3.6%
<i>Real Average Hourly Earnings</i>	<b>-0.5%</b>	0.0%	0.0%	-1.9%	1.7%	1.3%
<i>Real Average Weekly Earnings</i>	<b>-0.1%</b>	0.0%	-0.3%	-1.6%	2.2%	1.6%

Source: U.S. Department of Labor