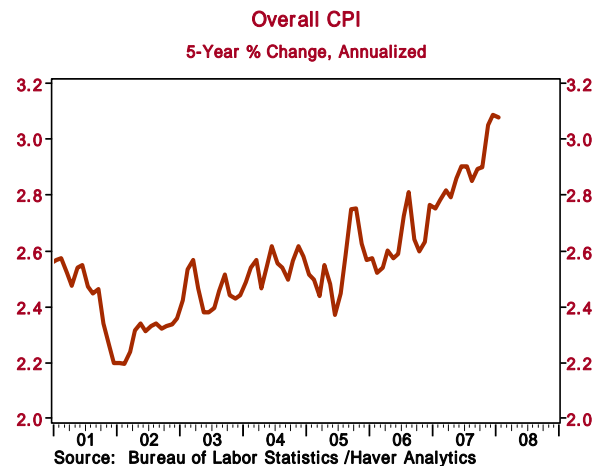
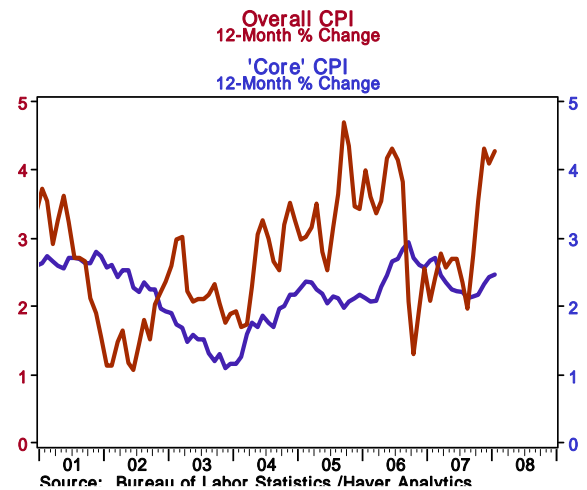


JANUARY CPI

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- The Consumer Price Index (CPI) increased 0.4% in January versus a consensus expected 0.3%. The CPI is up 4.3% versus a year ago and up at a 6.8% annual rate in the past three months.
- Energy prices increased 0.7% in January and are up 19.6% versus last year. Food and beverage prices were up 0.7% in January and are up 4.8% versus last year.
- Excluding food and energy, the “core” CPI was up 0.3% in January (0.311% unrounded) – the highest one-month increase in more than five years. The core CPI is up 2.5% versus a year ago and up at a 3.1% annual rate in the past three months. Excluding just energy, the CPI was up 0.4% in January and is up 2.8% versus a year ago.
- Real average hourly earnings – the cash earnings of production workers – were down 0.1% in January and are down 1.1% versus a year ago. However, year-to-year wage comparisons should improve substantially over the next several months.

Implications: The Federal Reserve needs to stop ignoring inflation. In the past three months the CPI is up at a 6.8% annual rate. With the exception of the two months immediately following Hurricanes Katrina and Rita this is the largest gain since 1990. At 4.3% consumer inflation is higher than the 3.9% yield on the 10-year Treasury, and that’s before investors pay taxes on the interest. Even “core” consumer prices are accelerating, with ex-food/energy prices up at a 3.1% annual rate in the past three months. Long-term, the five-year moving average of overall inflation remains in a steady uptrend (see chart to the right). Monetary policy has been accommodative since late 2001, which means an already serious inflation problem will continue to climb in the years ahead.



CPI - U <i>All Data Seasonally Adjusted</i>	Jan-08	Dec-07	Nov-07	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.4%	0.4%	0.9%	6.8%	4.7%	4.3%
<i>Ex Food & Energy</i>	0.3%	0.2%	0.2%	3.1%	2.7%	2.5%
<i>Ex Energy</i>	0.4%	0.2%	0.3%	3.4%	3.0%	2.8%
Energy	0.7%	1.7%	6.9%	43.6%	21.4%	19.6%
Food and Beverages	0.7%	0.1%	0.4%	4.6%	4.6%	4.8%
Housing	0.2%	0.3%	0.4%	3.5%	2.9%	3.0%
<i>Owners Equivalent Rent</i>	0.3%	0.3%	0.3%	3.3%	3.1%	2.8%
New Vehicles	-0.3%	-0.1%	0.0%	-1.1%	-1.1%	-0.6%
Medical Care	0.5%	0.3%	0.4%	5.1%	5.3%	4.9%
Services (Excluding Energy Services)	0.4%	0.3%	0.3%	3.9%	3.5%	3.4%
Real Average Hourly Earnings	-0.1%	0.0%	-0.8%	-3.8%	-1.7%	-1.1%

Source: U.S. Department of Labor

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