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Data Watch

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MARCH CPI

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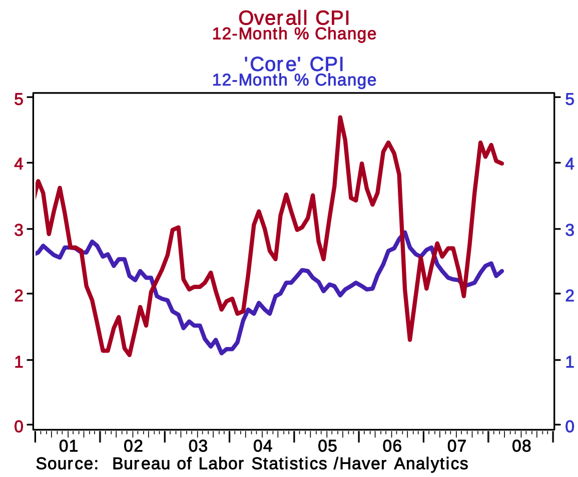
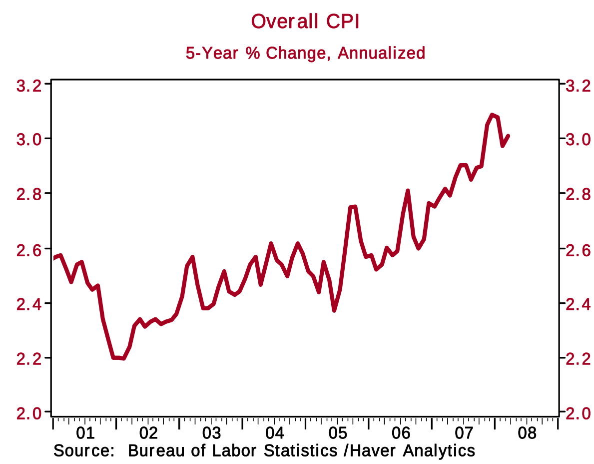
- The Consumer Price Index (CPI) was up 0.3% in March, meeting consensus expectations. The CPI is up 4.0% versus a year ago.
- Energy prices rose 1.9% in March and are up 17.0% versus last year. Food and beverage prices were up 0.2% in March and are up 4.4% versus last year.
- Excluding food and energy, the "core" CPI was up 0.2% in March. The core CPI is up 2.4% versus a year ago. Excluding just energy, the CPI was up 0.2% in March and is up 2.7% versus a year ago.
- Real average hourly earnings – the cash earnings of production workers – were down 0.1% in March and are down 0.6% versus a year ago. Year-to-year wage comparisons are likely to improve over the next two months.





Implications: Consumer prices continue to increase at what should be an unacceptable pace for the Federal Reserve. Some analysts see hopeful signs for inflation because consumer prices were unchanged in February and rose as expected in March. But with overall consumer prices up 4% versus last year, we think that's a case of "defining price stability down." It also suggests higher inflation expectations are starting to get embedded into expectations. Other analysts think recent signs of weakness in the labor market will lead to lower inflation in the year ahead, so why worry about it? They often note that past periods of sluggish economic growth (including recessions) have been followed by falling inflation. What they are missing is that periods of economic weakness followed by lower inflation were initiated by tight monetary policy. When the Fed gets tight, the real economy eventually slows and then inflation slows with an additional lag of about a year. But the Fed has yet to be tight during this business cycle, which means recent sluggish economic growth is not going to be followed by falling inflation.

CPI - U *All Data Seasonally Adjusted*	Mar-08	Feb-08	Jan-08	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.3%**	0.0%	0.4%	3.1%	4.6%	4.0%
Ex Food & Energy	**0.2%**	0.0%	0.3%	2.0%	2.3%	2.4%
Ex Energy	**0.2%**	0.1%	0.4%	2.5%	2.6%	2.7%
Energy	**1.9%**	-0.5%	0.7%	8.6%	25.8%	17.0%
Food and Beverages	**0.2%**	0.4%	0.7%	5.1%	3.9%	4.4%
Housing	**0.4%**	0.2%	0.2%	3.4%	3.4%	3.0%
Owners Equivalent Rent	**0.2%**	0.1%	0.3%	2.5%	2.8%	2.6%
New Vehicles	**-0.1%**	-0.3%	-0.3%	-2.7%	-1.6%	-1.1%
Medical Care	**0.1%**	0.1%	0.5%	3.2%	4.1%	4.6%
Services (Excluding Energy Services)	**0.2%**	0.1%	0.4%	2.9%	3.1%	3.3%
Real Average Hourly Earnings	**-0.1%**	0.4%	-0.1%	0.5%	-1.7%	-0.6%

Source: U.S. Department of Labor