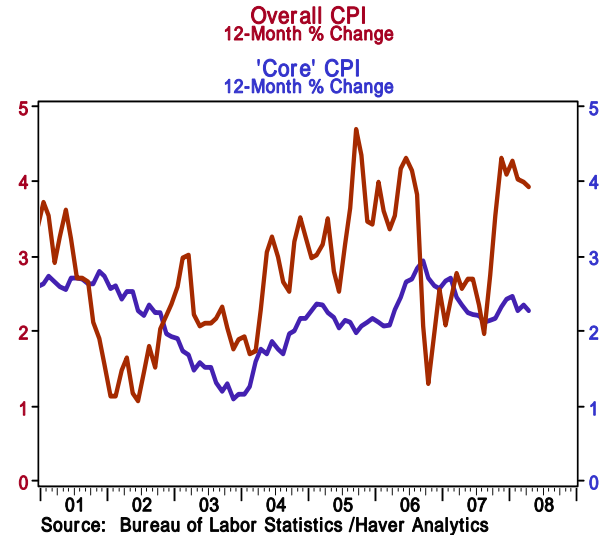


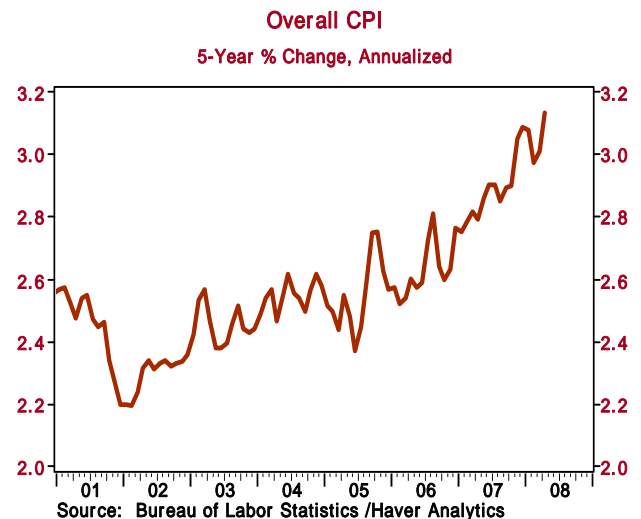
APRIL CPI

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- The Consumer Price Index (CPI) was up 0.2% in April, slightly less than the consensus expected. The CPI is up 3.9% versus a year ago.
- Energy prices were unchanged in April but are up 15.9% versus last year. Food and beverage prices were up 0.9% in April and are up 5.0% versus a year ago, the most since 1990.
- Excluding food and energy, the “core” CPI was up 0.1% in April and is up 2.3% versus a year ago. Excluding just energy, the CPI was up 0.2% in April and is up 2.7% versus a year ago.
- Real average hourly earnings – the cash earnings of production workers – were down 0.1% in April and are down 0.7% versus a year ago.



Implications: Consumer price inflation moderated in April but do not expect the moderation to last. The headline 0.2% increase in the CPI included zero change in the price of energy, despite a large increase in the price of oil that will soon flow through to consumers. Consumer prices are up 3.9% versus last year and, as the chart to the right shows, the long-term (5-year) trend in inflation remains upward. Some analysts contend that inflation is not a pervasive problem because unit labor costs remain subdued. However, we experienced a similar phenomenon in the late 1980s, in reaction to which the Federal Reserve raised short-term rates to almost 10% to wrestle inflation under control. Note that today’s year-to-year inflation of 3.9% reflects the stance of monetary policy about 18-24 months ago, when the Fed was less loose than it is today. This suggests inflation will be a growing problem over the next couple of years.



CPI - U <i>All Data Seasonally Adjusted</i>	Apr-08	Mar-08	Feb-08	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.2%	0.3%	0.0%	2.3%	4.5%	3.9%
Ex Food & Energy	0.1%	0.2%	0.0%	1.2%	2.2%	2.3%
Ex Energy	0.2%	0.2%	0.1%	2.0%	2.7%	2.7%
Energy	0.0%	1.9%	-0.5%	5.6%	23.1%	15.9%
Food and Beverages	0.9%	0.2%	0.4%	6.1%	5.4%	5.0%
Housing	0.3%	0.4%	0.2%	3.7%	3.6%	3.0%
Owners Equivalent Rent	0.2%	0.2%	0.1%	2.3%	2.8%	2.6%
New Vehicles	-0.2%	-0.1%	-0.3%	-2.4%	-1.8%	-1.3%
Medical Care	0.2%	0.1%	0.1%	1.6%	3.3%	4.3%
Services (Excluding Energy Services)	0.1%	0.2%	0.1%	1.9%	2.9%	3.1%
Real Average Hourly Earnings	-0.1%	-0.1%	0.4%	0.5%	-1.7%	-0.7%

Source: U.S. Department of Labor