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Data Watch

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NOVEMBER CPI

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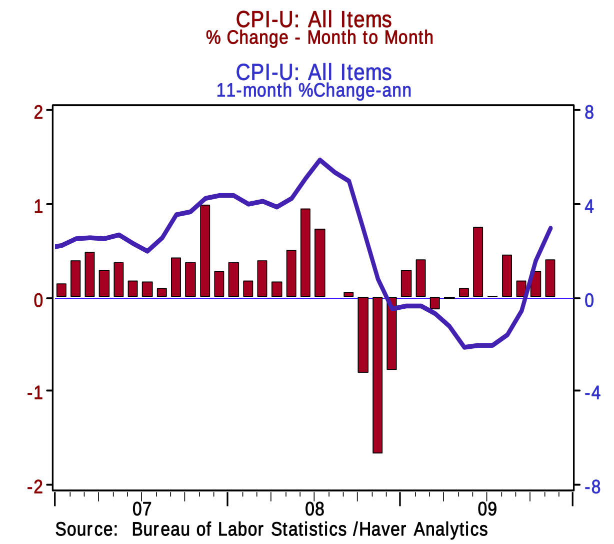
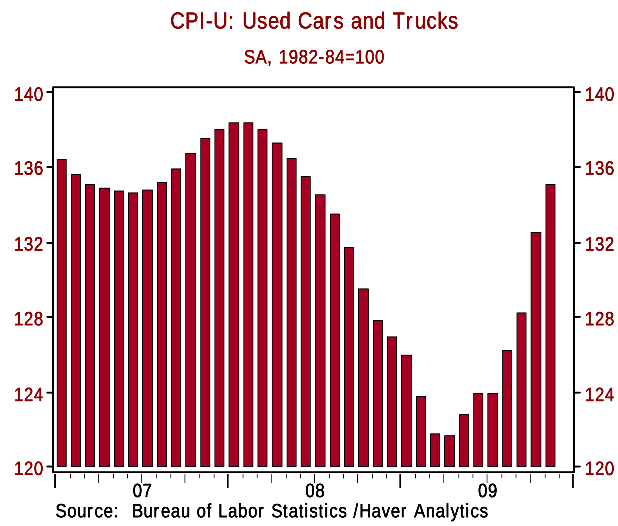
- The Consumer Price Index (CPI) was up 0.4% in November, matching consensus expectations. The CPI is up 1.8% versus a year ago, and is up at a 4.2% annual rate in the past six months.
- "Cash" inflation (which excludes the government's estimate of what a homeowner would charge himself for rent) increased 0.6% in November and is up at a 5.6% annual rate in the past six months.
- Energy prices were up 4.1% in November, while food prices were up 0.1%. Excluding food and energy, the "core" CPI was unchanged in November but is up at a 1.5% annual rate in the past six months.
- Real average hourly earnings – the cash earnings of production workers, adjusted for inflation – were down 0.5% in November and are now down slightly versus a year ago.

Implications: Anyone who thinks inflation isn't a problem is sticking his head in the sand. Consumer prices increased 0.4% in November and are up at a 4.2% annual rate over the past six months. Almost all of the increase in prices in November was due to energy. Some analysts like to exclude food and energy prices and focus on "core" inflation only, as if people don't still pay to eat, drive, and heat their homes. This measure of inflation is up at only a 1.5% annual rate in the past six months. However, one of the largest components of consumer prices is homeowners' equivalent rent – an estimate of what homeowners would get for their homes if they rented them out. The key to remember is that this estimate does not reflect an actual transaction. Whether it goes up or down, no one pays any more to anyone else. "Core" inflation excluding this contrived rent estimate is up at a 2.3% annual rate in the past six months, which is not benign. Taking overall consumer prices (including food and energy) and then stripping out homeowners rent, shows "cash" inflation was up 0.6% in November and is up at a 5.6% annual rate in the past six months. Inflation is also starting to have an impact on "real" average hourly earnings, which were down 0.5% in November and are now down 0.1% from a year ago. As long as the Federal Reserve keeps its extremely loose monetary policy, this process of eroding hourly wages is going to continue.





CPI - U *All Data Seasonally Adjusted*	Nov-09	Oct-09	Sep-09	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.4%**	0.3%	0.2%	3.4%	4.2%	1.8%
Ex Food & Energy	**0.0%**	0.2%	0.2%	1.5%	1.5%	1.7%
Ex Energy	**0.0%**	0.2%	0.1%	1.3%	1.2%	1.3%
Energy	**4.1%**	1.5%	0.6%	27.9%	41.7%	7.4%
Food and Beverages	**0.1%**	0.1%	-0.1%	0.3%	0.0%	-0.5%
Housing	**0.0%**	0.1%	0.0%	0.4%	-0.1%	-0.3%
Owners Equivalent Rent	**-0.1%**	0.0%	-0.1%	-1.1%	-0.3%	0.8%
New Vehicles	**0.6%**	1.6%	0.4%	11.2%	5.0%	4.9%
Medical Care	**0.3%**	0.2%	0.4%	3.6%	3.2%	3.5%
Services (Excluding Energy Services)	**0.0%**	0.1%	0.1%	0.7%	1.1%	1.4%
Real Average Hourly Earnings	**-0.5%**	0.0%	-0.1%	-2.3%	-2.8%	-0.1%

Source: U.S. Department of Labor