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January CPI

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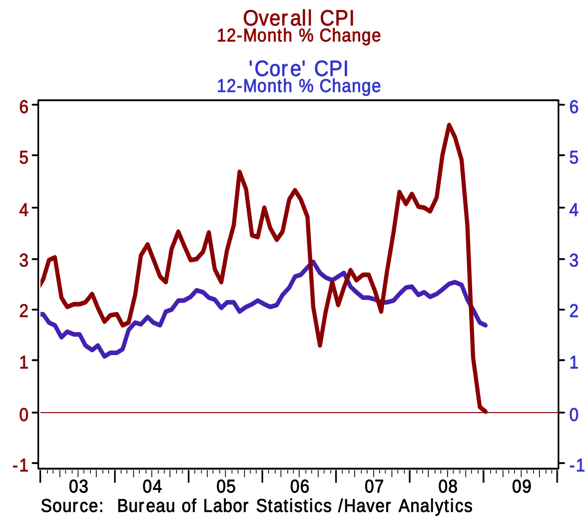
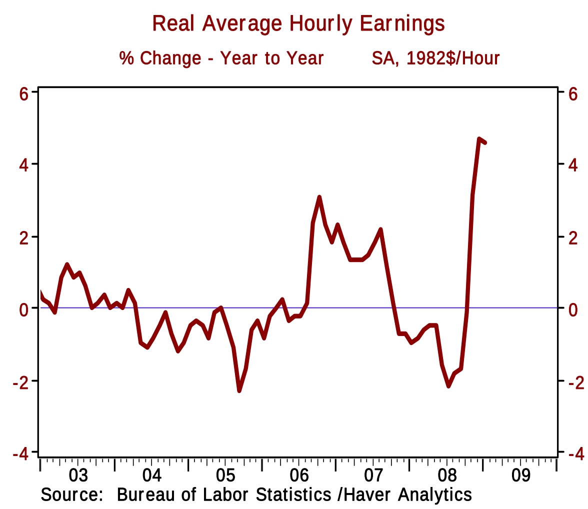
- The Consumer Price Index (CPI) increased 0.3% in January, matching consensus expectations. The CPI is unchanged versus a year ago.
- Energy prices, which rose 1.7%, accounted for about half the increase in the CPI in January. The second largest contribution to overall inflation came from housing rents. Food and beverage prices were up 0.1% in January.
- Excluding food and energy, the "core" CPI was up 0.2% in January and is up 1.7 % versus a year ago. Excluding energy, the CPI increased 0.2% in January and is up 2.2% versus a year ago.
- Real average hourly earnings – the cash earnings of production workers, adjusted for inflation – were down 0.1% in January but are up 4.6% versus a year ago.





Implications: Coming on the heels of yesterday's report of a surprisingly strong 0.8% increase in producer prices, today's report that consumer prices rose 0.3% in January adds to the evidence that monetary velocity has either stopped falling or has started to pick up. If true these price increases, along with the increase in January retail sales and a more recent rebound in the use of gasoline, signal that demand is reviving and the most intense period of the economic contraction is behind us. Although most of the price increase was due to energy and housing rents, all major categories of prices showed increases. We do not expect a return to the rapid price declines of late 2008. However, due to those rapid declines, the CPI is now unchanged versus a year ago, the first time this has happened since 1955. Going forward, as we drop off the months early last year when energy prices were still spiking upward, year-to-year CPI comparisons should go negative and will stay that way deep into 2009. But the underlying inflation problem that preceded the collapse in monetary velocity has not gone away. The massive liquidity the Federal Reserve has injected into the financial system will eventually generate a revival in inflation starting late this year. Meanwhile, real (inflation-adjusted) average hourly earnings are up 4.6% in the past year. This means that despite rising unemployment, the inflation-adjusted total cash earnings of all production workers are unchanged versus a year ago.

CPI - U *All Data Seasonally Adjusted*	Jan-09	Dec-08	Nov-08	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.3%**	-0.8%	-1.7%	-8.4%	-5.8%	0.0%
Ex Food & Energy	**0.2%**	0.0%	0.1%	0.9%	1.0%	1.7%
Ex Energy	**0.2%**	0.0%	0.1%	1.0%	1.4%	2.2%
Energy	**1.7%**	-9.3%	-16.9%	-65.4%	-53.0%	-20.4%
Food and Beverages	**0.1%**	0.1%	0.2%	1.4%	3.7%	5.2%
Housing	**0.0%**	0.0%	-0.1%	-0.3%	-0.3%	2.2%
Owners Equivalent Rent	**0.3%**	0.1%	0.2%	2.3%	2.1%	2.2%
New Vehicles	**0.3%**	-0.3%	-0.4%	-1.9%	-4.4%	-2.6%
Medical Care	**0.4%**	0.3%	0.2%	3.9%	3.2%	2.6%
Services (Excluding Energy Services)	**0.2%**	0.1%	0.1%	1.6%	1.9%	2.5%
Real Average Hourly Earnings	**-0.1%**	1.4%	2.5%	16.3%	12.4%	4.6%

Source: U.S. Department of Labor