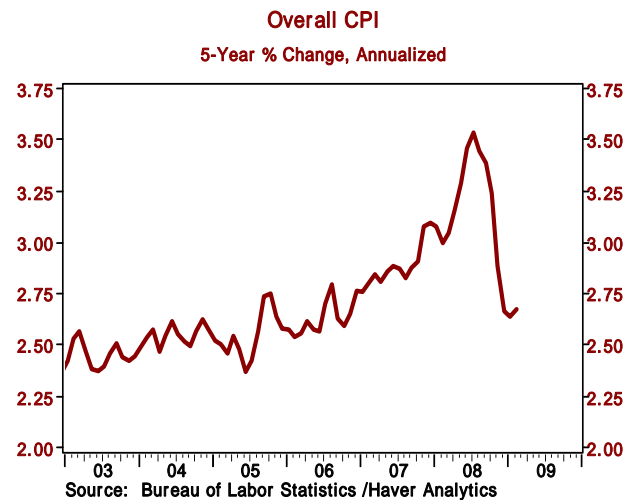
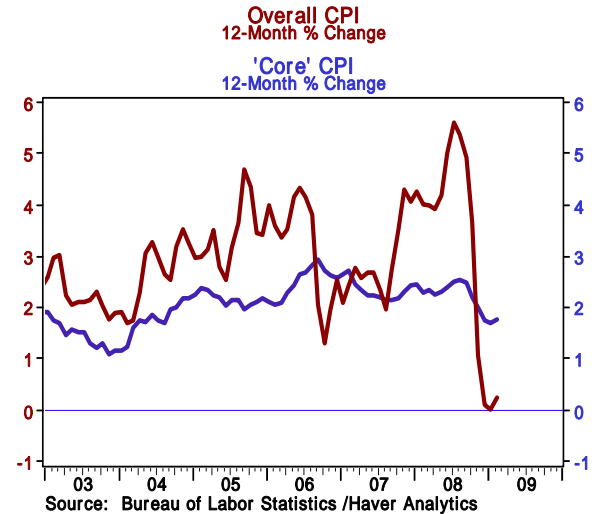


FEBRUARY CPI

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- The Consumer Price Index (CPI) increased 0.4% in February versus a consensus expected 0.3%. The CPI is up 0.2% versus a year ago.
- Energy prices, which rose 3.3%, accounted for most of the increase in the CPI in February. Food prices fell 0.1%.
- Excluding food and energy, the “core” CPI was up 0.2% in February. The largest upward contributions to core CPI came from apparel (up 1.3%, largely due to clothing for men and boys) and new cars/trucks (up 0.8%).
- Real average hourly earnings – the cash earnings of production workers, adjusted for inflation – were down 0.2% in February but are up 4.1% versus a year ago.

Implications: The energy-driven temporary bout of deflation the US suffered in late 2008 is officially over. For the second month in a row, both consumer and producer prices have increased. Moreover, the price increases have occurred in both the overall indexes and the “core” indexes, which exclude food and energy. Given the rapid price declines late last year, consumer prices will soon go negative on a year-to-year basis (comparing May 2009 to May 2008, for example) and remain that way into the fall. However, focusing on that comparison is misleading when the month-to-month declines in prices in late 2008 become more distant with each passing month. Monetary velocity has started to pick up and demand is reviving. The underlying inflation problem that preceded the collapse in monetary velocity has not gone away. Meanwhile, real (inflation-adjusted) average hourly earnings are up 4.1% in the past year, helping support consumer demand even as job losses continue. In other news this morning, the current account deficit declined \$48.5 billion in the fourth quarter of 2008 to -\$132.8 billion or 3.7% of GDP, the smallest deficit since 2001. The largest source of the change in Q4 was a huge reduction in the import of goods.



CPI - U <i>All Data Seasonally Adjusted</i>	Feb-09	Jan-09	Dec-08	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.4%	0.3%	-0.8%	-0.5%	-5.0%	0.2%
Ex Food & Energy	0.2%	0.2%	0.0%	1.5%	1.1%	1.8%
Ex Energy	0.1%	0.2%	0.0%	1.2%	1.2%	2.2%
Energy	3.3%	1.7%	-9.3%	-17.4%	-47.8%	-18.5%
Food and Beverages	-0.1%	0.1%	0.1%	0.1%	2.3%	4.7%
Housing	0.0%	0.0%	0.0%	0.0%	-0.4%	1.9%
Owners Equivalent Rent	0.1%	0.3%	0.1%	1.8%	2.1%	2.1%
New Vehicles	0.8%	0.3%	-0.3%	3.1%	-1.7%	-1.5%
Medical Care	0.3%	0.4%	0.3%	4.3%	3.5%	2.8%
Services (Excluding Energy Services)	0.1%	0.2%	0.1%	1.6%	1.6%	2.5%
Real Average Hourly Earnings	-0.2%	-0.1%	1.3%	3.8%	10.5%	4.1%

Source: U.S. Department of Labor