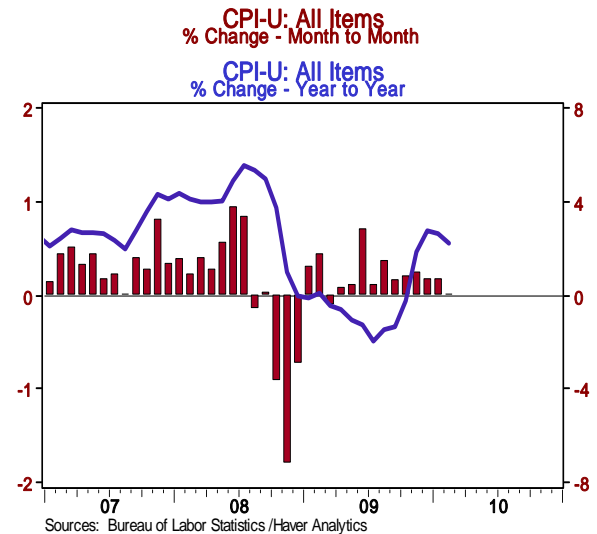


## FEBRUARY CPI

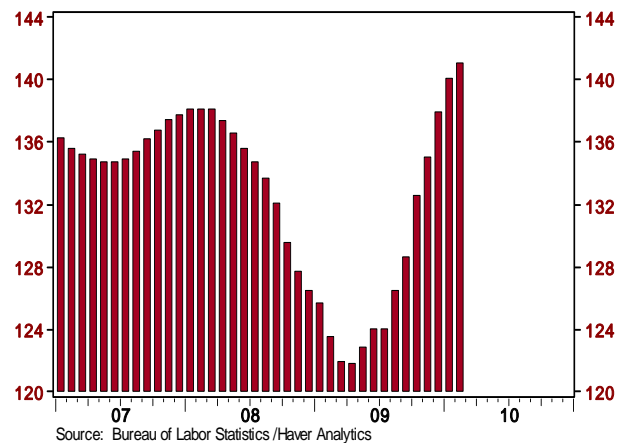
Chief Economist – Brian S. Wesbury  
Senior Economist – Robert Stein, CFA

- The Consumer Price Index (CPI) was unchanged in February versus a consensus expected increase of 0.1%. The CPI is up 2.1% versus a year ago.
- “Cash” inflation (which excludes the government’s estimate of what a homeowner would charge himself for rent) was up 0.1% in February and is up 2.9% in the past year.
- Energy prices fell 0.5% in February while food prices were up 0.1%. Excluding food and energy, the “core” CPI was up 0.1% in February and is up 1.3% versus a year ago. The largest contribution to the increase in core inflation in February was medical care, with most of the rest of the increase due to education (tuition/supplies).
- Real average hourly earnings – the cash earnings of production workers, adjusted for inflation – were up 0.1% in February but are down 0.4% versus a year ago.



**Implications:** Like producer prices, consumer prices took a breather in February, largely due to a temporary drop in energy. However, we know the price drop for retail gas has already been reversed; pump prices appear to be up about 4.5% in March, which would be the largest monthly gain in nine months. Although overall consumer prices are up a tepid 2.1% in the past year, the year-ago comparison should move up to about 2.7% next month and head even higher as the year goes on. Although you will hear from the inflation “doves” that “core” inflation, which excludes food and energy, is the lowest since 2004, we do not believe this is the important part of the report. Instead, we think “cash” inflation better gauges the pain consumers are feeling. Cash inflation counts everything, *including food and energy*, but takes out something called “owners’ equivalent rent” or OER – the government’s estimate of what homeowners would pay if they rented their own homes. Remember, OER does not reflect an actual transaction; if OER goes up no one has to pay anyone else any more money. Excluding OER, consumer prices are up 2.9% versus a year ago. In other news this morning, initial claims for unemployment insurance declined 5,000 last week to 457,000.

CPI-U: Used Cars and Trucks  
SA, 1982-84=100



Continuing claims for regular state benefits increased 12,000 to 4.58 million. Also, the Philadelphia Fed Index, a measure of manufacturing in that region, increased to +18.9 in March from +17.6 in February, beating consensus expectations.

CPI - U <i>All Data Seasonally Adjusted</i>	Feb-10	Jan-10	Dec-09	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Consumer Price Index</b>	<b>0.0%</b>	0.2%	0.2%	1.4%	1.9%	2.1%
<i>Ex Food &amp; Energy</i>	<b>0.1%</b>	-0.1%	0.1%	0.1%	0.8%	1.3%
<i>Ex Energy</i>	<b>0.1%</b>	-0.1%	0.1%	0.3%	0.8%	1.1%
<b>Energy</b>	<b>-0.5%</b>	2.8%	0.8%	12.8%	13.5%	14.4%
<i>Food and Beverages</i>	<b>0.0%</b>	0.2%	0.1%	1.6%	1.0%	-0.1%
<i>Housing</i>	<b>0.0%</b>	-0.3%	0.0%	-1.3%	-0.6%	-0.6%
<i>Owners Equivalent Rent</i>	<b>0.0%</b>	-0.1%	0.0%	-0.4%	-0.6%	0.3%
<b>New Vehicles</b>	<b>0.1%</b>	-0.5%	-0.2%	-2.5%	3.3%	3.5%
<i>Medical Care</i>	<b>0.5%</b>	0.5%	0.1%	4.8%	4.2%	3.6%
<i>Services (Excluding Energy Services)</i>	<b>0.1%</b>	-0.2%	0.1%	-0.2%	0.3%	0.9%
<b>Real Average Hourly Earnings</b>	<b>0.1%</b>	0.0%	0.0%	0.5%	0.0%	-0.4%

Source: U.S. Department of Labor