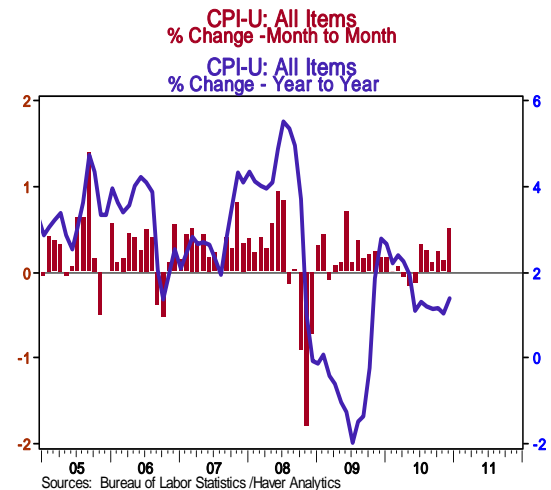


## DECEMBER CPI

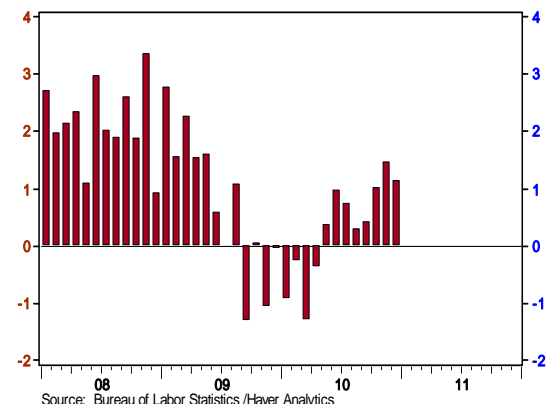
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- The Consumer Price Index (CPI) increased 0.5% in December, slightly above the consensus expected gain of 0.4%. The CPI is up 1.5% versus a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) was up 0.6% in December and is up 1.7% in the past year.
- Most of the increase in the CPI in December can be attributed to energy prices, which increased 4.6%. Food prices were up 0.1%. Excluding food and energy, the “core” CPI increased 0.1%, matching consensus expectations. Core prices are up 0.6% versus last year.
- Real average hourly earnings – the cash earnings of production workers, adjusted for inflation – fell 0.4% in December but are up 0.4% in the past year. Due to an increase in work hours, real *weekly* earnings are up 1.9% in the past year.



**Implications:** Prices have been escalating at the producer level and are now starting to show up at the consumer level. Consumer prices came in higher than expected, much due to the 4.6% increase in energy prices. Increases in the CPI are likely to persist throughout 2011 as commodity prices continue to rise and monetary policy remains easy. Although consumer prices are up only 1.5% from a year ago, they are up at a 3.1% annual rate in the past six months and up at an even faster 3.5% annual rate in the past three months. In addition, one of the factors that has held inflation down in the past year is now heading back up. Owners’ equivalent rent (OER), which is the government’s estimate of what homeowners would pay if they rented their own homes, mostly fell in late 2009 and early 2010 but is now up 0.3% versus a year ago, up at a 1.2% annual rate in the past three months and up at a 1.1% annual rate in December. This is important because OER accounts for about 25% of all the goods and services in the CPI.

CPI-U: Owners' Equivalent Rent  
% Change - Annual Rate



CPI - U <i>All Data Seasonally Adjusted</i>	Dec-10	Nov-10	Oct-10	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Consumer Price Index</b>	<b>0.5%</b>	0.1%	0.2%	3.5%	3.1%	1.5%
<i>Ex Food &amp; Energy</i>	<b>0.1%</b>	0.1%	0.0%	0.7%	0.7%	0.6%
<i>Ex Energy</i>	<b>0.1%</b>	0.1%	0.0%	0.9%	0.9%	0.9%
<b>Energy</b>	<b>4.6%</b>	0.2%	2.6%	33.9%	29.1%	7.7%
<i>Food and Beverages</i>	<b>0.1%</b>	0.2%	0.1%	1.5%	1.6%	1.5%
<i>Housing</i>	<b>0.2%</b>	0.0%	0.1%	1.2%	0.8%	0.3%
<b>Owners Equivalent Rent</b>	<b>0.1%</b>	0.1%	0.1%	1.2%	0.8%	0.3%
<b>New Vehicles</b>	<b>0.0%</b>	-0.4%	-0.2%	-2.2%	0.0%	-0.2%
<b>Medical Care</b>	<b>0.2%</b>	0.1%	0.1%	1.9%	2.6%	3.3%
<b>Services (Excluding Energy Services)</b>	<b>0.1%</b>	0.2%	0.1%	1.5%	1.2%	1.3%
<b>Real Average Hourly Earnings</b>	<b>-0.4%</b>	-0.1%	0.0%	-1.9%	-1.2%	0.4%

Source: U.S. Department of Labor