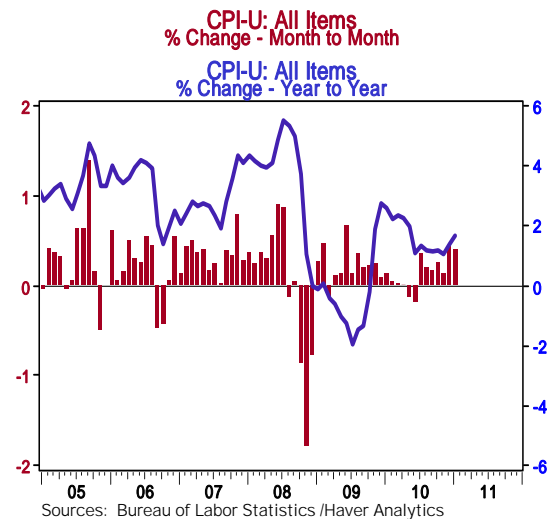


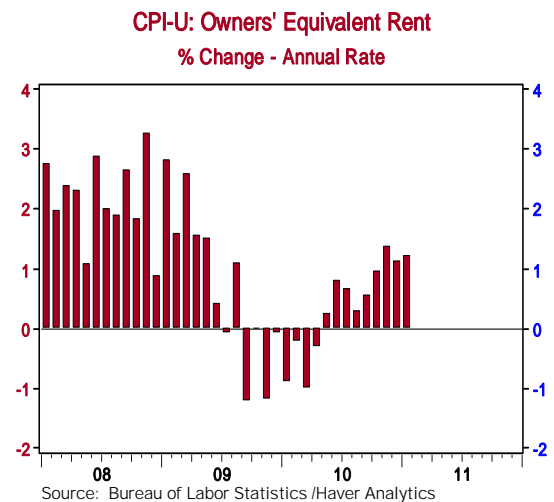
JANUARY CPI

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- The Consumer Price Index (CPI) increased 0.4% in January, more than the consensus expected gain of 0.3%. The CPI is up 1.6% versus a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) was up 0.5% in January and is up 2.0% in the past year.
- About half of the increase in the CPI in January was due to energy, which increased 2.1%. Food prices were up 0.5%. Excluding food and energy, the “core” CPI increased 0.2%, higher than consensus expectations. Core prices are up 0.9% versus last year.
- Real average hourly earnings – the cash earnings of production workers, adjusted for inflation – fell 0.1% in January but are up 0.2% in the past year. Due to an increase in work hours, real *weekly* earnings are up 0.8% in the past year.



Implications: Consumer price inflation is accelerating. Consumer prices came in slightly higher than expected in January, much due to a 2.1% increase in energy. However, core prices (which exclude food and energy) increased 0.2%, the most for any month in more than a year. Although consumer prices are up only 1.6% from a year ago, they are up at a 3.2% annual rate in the past six months and up at an even faster 3.9% rate in the past three months. We like to follow “cash inflation,” which is everything in the CPI except for owners’ equivalent rent (the government’s estimate of what homeowners would pay if they rented their own homes). Cash inflation increased 0.5% in January and is up at a 6.3% annual rate in the past two months. With rising commodity prices and easy money from the Fed, we expect persistent increases in the CPI throughout 2011. In other news this morning, the Philadelphia Fed Index, a measure of manufacturing in that area, skyrocketed to +35.9 in February from +19.3 in January. The consensus had expected a much smaller gain to +21.0. The index is now the highest since early 2004. Also in other news, initial claims for jobless benefits increased 25,000 last week after dropping 34,000 the prior week. Initial claims are usually volatile this time of year, but even more so in 2011 due to harsher than normal winter storms. Continuing claims for regular state benefits were essentially unchanged at 3.91 million.



CPI - U <i>All Data Seasonally Adjusted</i>	Jan-11	Dec-10	Nov-10	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.4%	0.4%	0.1%	3.9%	3.2%	1.6%
<i>Ex Food & Energy</i>	0.2%	0.1%	0.1%	1.4%	0.9%	0.9%
<i>Ex Energy</i>	0.2%	0.1%	0.1%	1.7%	1.2%	1.1%
Energy	2.1%	4.0%	0.1%	27.7%	25.3%	7.3%
Food and Beverages	0.5%	0.1%	0.1%	3.1%	2.7%	1.8%
Housing	0.1%	0.2%	0.0%	1.1%	0.8%	0.4%
<i>Owners Equivalent Rent</i>	0.1%	0.1%	0.1%	1.2%	0.9%	0.5%
New Vehicles	-0.1%	-0.1%	-0.2%	-1.6%	-0.5%	0.1%
Medical Care	0.1%	0.2%	0.2%	2.0%	3.0%	2.9%
Services (Excluding Energy Services)	0.1%	0.1%	0.2%	1.8%	1.4%	1.4%
Real Average Hourly Earnings	-0.1%	-0.3%	-0.2%	-2.3%	-1.0%	0.2%

Source: U.S. Department of Labor