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February CPI

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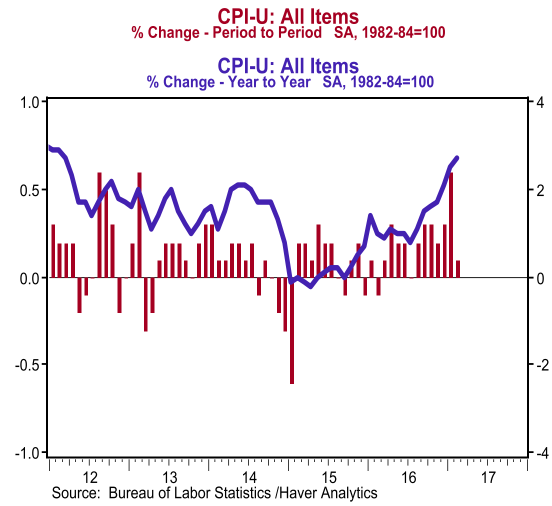
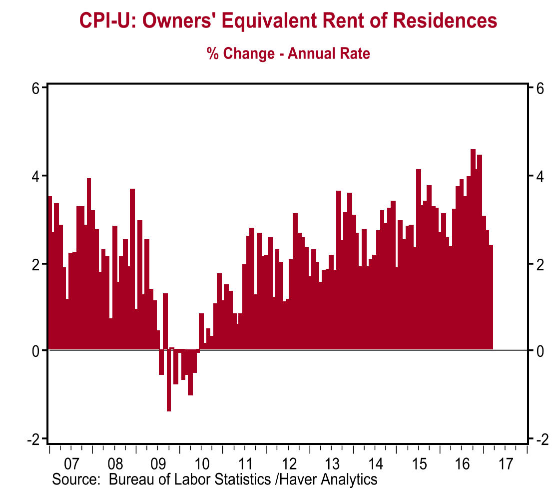
- The Consumer Price Index (CPI) increased 0.1% in February, coming in above the consensus expectation of no change. The CPI is up 2.7% from a year ago.
- "Cash" inflation (which excludes the government's estimate of what homeowners would charge themselves for rent) rose 0.1% in February and is up 2.5% in the past year.
- Energy prices declined 1.0% in February, while food prices increased 0.2%. The "core" CPI, which excludes food and energy, increased 0.2% in February, matching consensus. Core prices are up 2.2% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.1% in February but are unchanged in the past year. Real average weekly earnings are down 0.3% in the past year.



Implications: The Fed's minds are made up regarding their rate hike decision at today's meeting, but this morning's report on consumer prices serves to further reinforce what they already know, this economy is ready for higher rates. Consumer prices rose 0.1% in February, on the back of January's 0.6% surge. But unlike in recent months, energy was not a key contributor. In fact, energy prices declined 1.0% in February. "Core" consumer prices, which strip out the volatile food and energy components, increased 0.2% in February and are up 2.2% in the past year. So no matter what way you cut it – overall consumer prices up 2.7% in the past year or "core prices up 2.2% over the same period – it's clear that inflation is running in the Fed's target range. What's more, the pace of inflation has been picking up, with consumer prices up at a 3.8% annual rate in the past three months. The Fed's favorite measure of inflation is the PCE index, which was up 1.9% for the twelve months ending in January, and just a 0.1% increase in March would put PCE inflation above the Fed's 2% target. To put that in perspective, the PCE index has increased 0.1% or more in each of the last eleven months. Consumer prices in February were led higher by housing, up 0.3%. We expect housing will continue to be a key contributor behind moderate inflation in the year ahead. Real average hourly earnings rose 0.1% in February after being flat or down in each of the last three months. These earnings are flat over the past year, but given continued employment gains and a tightening labor market, this should rebound soon. With all the inflation and employment data in, there is little else to impact what looks to be a near guaranteed hike at today's Fed meeting. But despite little drama surrounding today's decision to lift rates, all eyes will still be on the Fed as they release their summary of economic projects (often referred to as the "dot plots"), showing if they are now pricing in four rate hikes in 2017, up from three.



CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	Feb-17	Jan-17	Dec-16	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.1%**	0.6%	0.3%	3.8%	3.4%	2.7%
Ex Food & Energy	**0.2%**	0.3%	0.2%	3.0%	2.4%	2.2%
Ex Energy	**0.2%**	0.3%	0.2%	2.7%	2.1%	1.9%
Energy	**-1.0%**	4.0%	1.2%	17.9%	22.0%	15.2%
Food and Beverages	**0.2%**	0.1%	0.0%	1.3%	0.5%	0.1%
Housing	**0.3%**	0.3%	0.3%	3.3%	3.4%	3.2%
Owners Equivalent Rent	**0.3%**	0.2%	0.3%	3.2%	3.5%	3.5%
New Vehicles	**-0.2%**	0.9%	0.1%	2.9%	1.6%	0.5%
Medical Care	**0.1%**	0.2%	0.2%	2.1%	1.8%	3.5%
Services (Excluding Energy Services)	**0.3%**	0.3%	0.3%	3.4%	3.0%	3.1%
Real Average Hourly Earnings	**0.1%**	-0.4%	0.0%	-1.1%	-0.7%	0.0%

Source: U.S. Department of Labor