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November CPI

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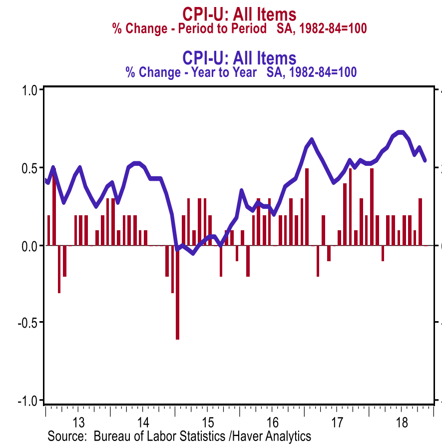
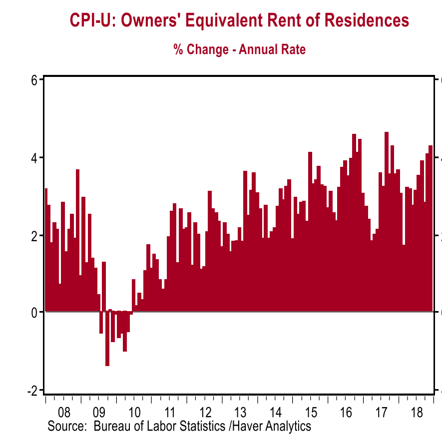
- The Consumer Price Index (CPI) was unchanged in November, matching consensus expectations. The CPI is up 2.2% from a year ago.
- Energy prices declined 2.2% in November, while food rose 0.2%. The "core" CPI, which excludes food and energy, increased 0.2% in November, also matching consensus expectations. Core prices are up 2.2% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.3% in November and are up 0.8% in the past year. Real average weekly earnings are up 0.5% in the past year.





Implications: Consumer prices were unchanged in November as declining energy costs offset gains in nearly every other category. Recent months have been a textbook example of how volatility distorts the headline reading. While energy prices swung from a 0.5% decline in September, to a 2.4% increase in October, to a 2.2% decline in November, "core" inflation (which excludes the typically volatile food and energy categories) has risen steadily month-to-month. That is why, in addition to emphasizing the core measure, we focus on the trend, which shows inflation continuing to run steadily above the Fed's 2% inflation target. In the past year, consumer prices are up 2.2%, and the index has matched or exceeded the Fed's 2% inflation target in each of the last fifteen months ("core" has exceeded 2% in each of the last nine months). So, after running stubbornly below the Fed's inflation target for the first five years of the recovery, the much-anticipated pickup has clearly arrived. No, this isn't runaway inflation, but with the federal funds rate well below the pace of nominal GDP growth, the odds of higher inflation – paired with a tight labor market and widespread strength in economic data - should be enough to keep the Fed on track for slow-but steady hikes through at least the end of 2019. Looking at the details of the November report shows medical care and housing led the rise in "core" prices, up 0.4% and 0.3%, respectively. And while new car and truck prices were unchanged in November, prices for used vehicles rose 2.4%, the second largest single month increase since the start of 2010. Maybe the best news in today's report was that real average hourly earnings rose 0.3% in November. These wages are up just 0.8% in the past year but are heading higher, with wages up 1.1% at an annual rate over the past three months and up 1.3% at an annual rate in the past six-months. And importantly, these earnings do not include irregular bonuses – like the ones paid by companies after the tax cut or to attract new hires – or the value of benefits. It's an imperfect measure (to say the least), but we still expect a visible pickup in wage pressure in the year ahead. The labor market remains strong and companies continue to report that finding available qualified labor remains a top headwind to even faster growth. Put it all together, and today's report shows an economy continuing to strengthen. The Fed would do well to focus on the data as they forecast their path for 2019, rather than letting media narratives influence their actions.

CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	Nov-18	Oct-18	Sep-18	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.0%**	0.3%	0.1%	1.6%	1.9%	2.2%
Ex Food & Energy	**0.2%**	0.2%	0.1%	2.1%	2.0%	2.2%
Ex Energy	**0.2%**	0.2%	0.1%	1.9%	1.9%	2.1%
Energy	**-2.2%**	2.4%	-0.5%	-1.2%	1.6%	3.1%
Food	**0.2%**	-0.1%	0.0%	0.7%	1.2%	1.4%
Housing	**0.3%**	0.3%	0.1%	2.9%	2.5%	2.9%
Owners Equivalent Rent	**0.3%**	0.3%	0.2%	3.1%	3.2%	3.3%
New Vehicles	**0.0%**	-0.2%	-0.1%	-1.4%	0.8%	0.3%
Medical Care	**0.4%**	0.2%	0.2%	2.8%	1.4%	2.0%
Services (Excluding Energy Services)	**0.2%**	0.2%	0.2%	2.5%	2.7%	2.9%
Real Average Hourly Earnings	**0.3%**	-0.2%	0.2%	1.1%	1.3%	0.8%

Source: U.S. Department of Labor