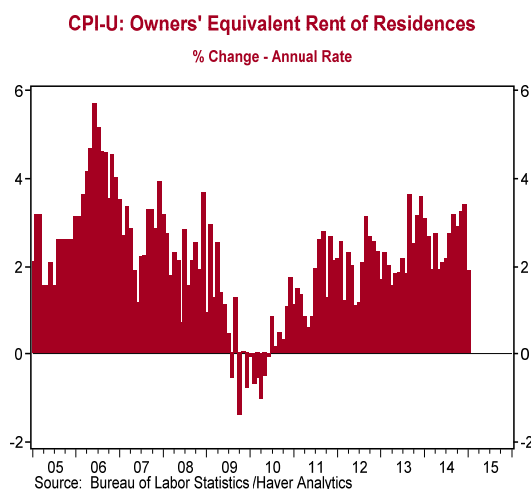
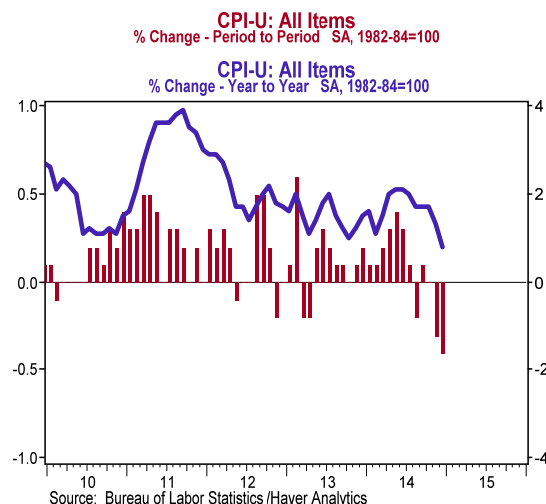


# December CPI

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- The Consumer Price Index (CPI) declined 0.4% in December, matching consensus expectations. The CPI is up 0.8% versus a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) declined 0.5% in December, and is up only 0.1% in the past year.
- Energy prices declined 4.7% in December, while food prices increased 0.3%. The “core” CPI, which excludes food and energy, was unchanged - the consensus expected a gain of 0.1%. Core prices are up 1.6% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.1% in December and are up 1.0% in the past year. Real *weekly* earnings are up 1.9% in the past year.

**Implications:** The sharpest decline in energy prices in more than six years pushed overall consumer prices lower in December at the fastest pace since the Panic of 2008. But it wasn’t just energy prices keeping a lid on inflation in December. Even excluding energy, consumer prices were unchanged for the month, with declines in clothing, airfares, and auto prices offsetting increases in rent, medical care, and food. Consumer prices rose only 0.8% in 2014, largely due to plummeting energy prices, which have now declined for six straight months. Gas is below \$2.60 per gallon in all of the lower 48 states (including high-tax Illinois, New York and even California). Given the continued drop in oil prices in the first half of January, look for another tame reading on inflation in next month’s report. However, the underlying trend in inflation is higher than the overall number. Although unchanged in December, “core” consumer prices, which exclude food and energy, were up 1.6% in 2014. Also, there are sectors where prices are rising faster. Food prices rose 3.4% in 2014, the largest gain since 2011. So if you only use the supermarket to gauge inflation, we understand thinking the headline reports are too low and that “true” inflation is higher. Meanwhile, housing costs are going up. Owners’ equivalent rent, which makes up about ¼ of the overall CPI, rose 0.2% in December, was up 2.6% in 2014, and will be a key source of higher inflation in the year ahead. In other words, even though overall prices remain subdued, there is no broad, tight-money, induced deflation out there. One of the best pieces of news in today’s report was that “real” (inflation-adjusted) average hourly earnings rose 0.1% in December after a 0.6% jump in November. These earnings are up 1% from a year ago, signaling that living standards are increasing, but still at a slow pace.



<b>CPI - U</b> <i>All Data Seasonally Adjusted</i>	<b>Dec-14</b>	<b>Nov-14</b>	<b>Oct-14</b>	<b>3-mo % Ch.</b> <b>annualized</b>	<b>6-mo % Ch.</b> <b>annualized</b>	<b>Yr to Yr</b> <b>% Change</b>
<b>Consumer Price Index</b>	<b>-0.4%</b>	<b>-0.3%</b>	<b>0.0%</b>	<b>-2.5%</b>	<b>-1.3%</b>	<b>0.8%</b>
<b>Ex Food &amp; Energy</b>	<b>0.0%</b>	<b>0.1%</b>	<b>0.2%</b>	<b>1.1%</b>	<b>1.1%</b>	<b>1.6%</b>
<b>Ex Energy</b>	<b>0.0%</b>	<b>0.1%</b>	<b>0.2%</b>	<b>1.3%</b>	<b>1.4%</b>	<b>1.9%</b>
<b>Energy</b>	<b>-4.7%</b>	<b>-3.8%</b>	<b>-1.9%</b>	<b>-34.5%</b>	<b>-24.8%</b>	<b>-10.6%</b>
<b>Food and Beverages</b>	<b>0.2%</b>	<b>0.3%</b>	<b>0.1%</b>	<b>2.6%</b>	<b>3.1%</b>	<b>3.3%</b>
<b>Housing</b>	<b>0.2%</b>	<b>0.2%</b>	<b>0.2%</b>	<b>2.2%</b>	<b>2.1%</b>	<b>2.5%</b>
<b>Owners Equivalent Rent</b>	<b>0.2%</b>	<b>0.2%</b>	<b>0.2%</b>	<b>2.6%</b>	<b>2.7%</b>	<b>2.6%</b>
<b>New Vehicles</b>	<b>-0.1%</b>	<b>-0.1%</b>	<b>0.2%</b>	<b>0.1%</b>	<b>1.1%</b>	<b>0.5%</b>
<b>Medical Care</b>	<b>0.5%</b>	<b>0.4%</b>	<b>0.2%</b>	<b>4.4%</b>	<b>2.9%</b>	<b>3.0%</b>
<b>Services (Excluding Energy Services)</b>	<b>0.1%</b>	<b>0.2%</b>	<b>0.3%</b>	<b>2.5%</b>	<b>2.0%</b>	<b>2.4%</b>
<b>Real Average Hourly Earnings</b>	<b>0.1%</b>	<b>0.6%</b>	<b>0.0%</b>	<b>2.7%</b>	<b>2.1%</b>	<b>1.0%</b>

Source: U.S. Department of Labor