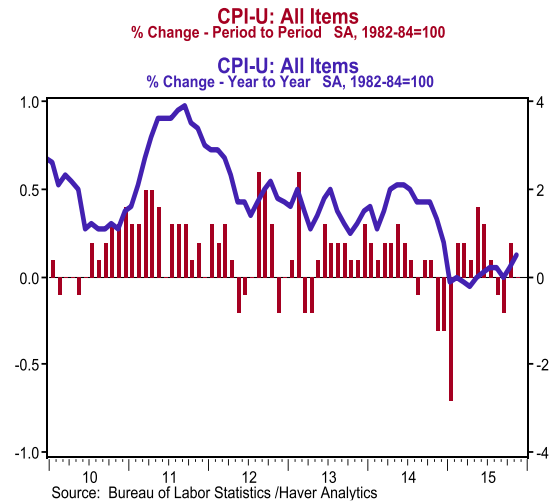


November CPI

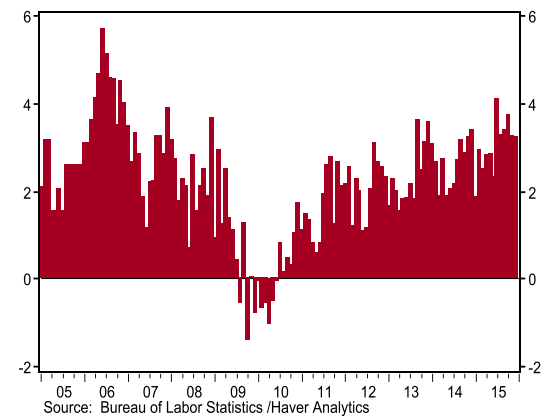
Brian S. Wesbury – Chief Economist
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- The Consumer Price Index (CPI) was unchanged in November, matching consensus expectations. The CPI is up 0.5% from a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) was also unchanged in November, but is down 0.3% in the past year.
- Energy prices declined 1.3% in November, while food prices fell 0.1%. The “core” CPI, which excludes food and energy, increased 0.2% in November, matching consensus expectations. Core prices are up 2.0% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.1% in November, and are up 1.8% in the past year. Real *weekly* earnings are up 1.6% in the past year.

Implications: A fitting final report heading into today’s start to the two-day Fed meeting. The consumer price index was unchanged in November, meeting consensus expectations. As a result, the Fed’s inclination to start lifting rates tomorrow should be unchanged as well. The underlying details of the report provide ammunition to what we believe is a clear majority at the Fed to raise rates. Although energy prices declined 1.3% in November while food prices declined 0.1%, nearly every other category of prices rose for the month. “Core” prices, which exclude both the volatile food and energy components, increased 0.2% in November and are up 2.0% in the past year. Core inflation has been running consistently at or above the Fed’s 2% target over the past three-, six-, and twelve-month periods. Prices excluding just energy are up 1.9% in the last year. In other words, core price inflation has held steady near the Fed’s target for quite some time, and almost all the statistical noise has come from energy. In turn, this suggests that once energy prices stop falling, overall inflation will move toward the Fed’s target more quickly than most anticipate. Owners’ equivalent rent, which makes up about ¼ of the CPI, rose 0.2% in November, is up 3.1% in the past year, up at a 3.3% annual rate in the past six months, and will be a key source of higher inflation in the year ahead. While some scaremongers warn about deflation, others stoke fears of hyperinflation. But the truth is that neither is a threat at present. What we have is low inflation that is likely to gradually work its way upward over the next few years. On the earnings front, “real” (inflation-adjusted) average hourly earnings rose 0.1% in November, and are up 1.8% in the past year. This, combined with more jobs, will help boost consumer spending in the year ahead. In other news this morning, the Empire State index, a measure of manufacturing sentiment in New York, came in at -4.6 in December, versus -10.7 in November, signaling that a strong dollar and relatively weak economies abroad are still headwinds for the factory sector.



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



CPI - U	Nov-15	Oct-15	Sep-15	3-mo % Ch.	6-mo % Ch.	Yr to Yr
<i>All Data Seasonally Adjusted Except for Yr to Yr</i>				annualized	annualized	% Change
Consumer Price Index	0.0%	0.2%	-0.2%	0.3%	0.9%	0.5%
Ex Food & Energy	0.2%	0.2%	0.2%	2.4%	2.0%	2.0%
Ex Energy	0.1%	0.2%	0.2%	2.3%	2.0%	1.9%
Energy	-1.3%	0.3%	-4.7%	-20.8%	-11.4%	-14.7%
Food and Beverages	-0.1%	0.2%	0.4%	1.7%	2.2%	1.2%
Housing	0.2%	0.2%	0.3%	2.5%	2.5%	2.1%
Owners Equivalent Rent	0.2%	0.2%	0.3%	3.0%	3.3%	3.1%
New Vehicles	0.1%	-0.2%	-0.1%	-0.8%	-0.6%	0.2%
Medical Care	0.4%	0.7%	0.2%	5.1%	2.5%	2.9%
Services (Excluding Energy Services)	0.3%	0.3%	0.3%	3.6%	3.0%	2.9%
Real Average Hourly Earnings	0.1%	0.2%	0.2%	1.9%	1.3%	1.8%

Source: U.S. Department of Labor