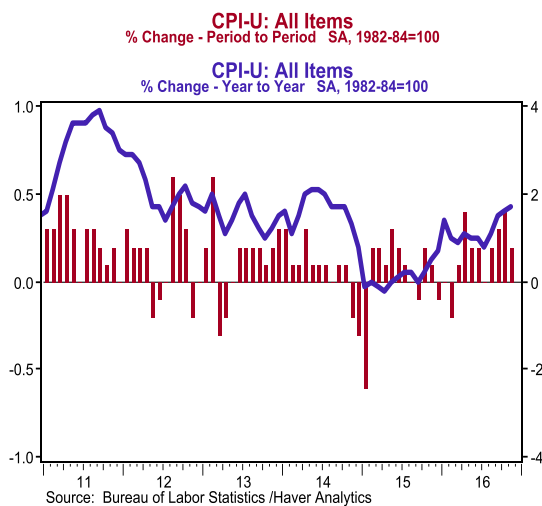


November CPI

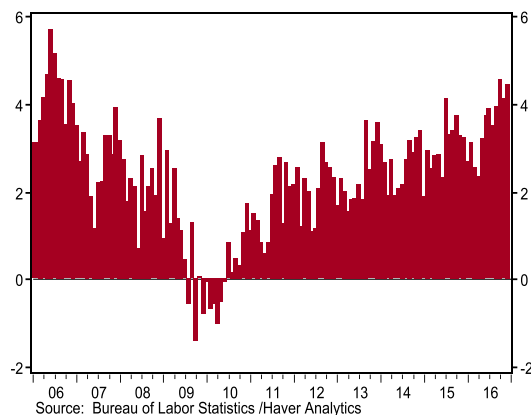
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- The Consumer Price Index (CPI) increased 0.2% in November, matching consensus expectations. The CPI is up 1.7% from a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) rose 0.2% in November and is up 1.1% in the past year.
- Energy prices rose 1.2% in November, while food prices were unchanged. The “core” CPI, which excludes food and energy, increased 0.2% in November, matching consensus expectations. Core prices are up 2.1% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – declined 0.4% in November but are up 0.8% in the past year. Real average weekly earnings are up 0.5% in the past year.

Implications: It’s a good thing the Fed is now tilting toward faster rate hikes, because inflation, while still low, is accelerating. Although consumer prices are up a tame 1.7% versus a year ago, they were up only 0.5% in the year ending in November 2015. Moreover, given price declines in December 2015 and early 2016, the year-ago comparisons will almost certainly move to about 2.5% by early 2017. (This should also lift the Fed’s preferred measure of inflation – the PCE deflator – to the Fed’s 2% target.) Consumer prices are up at a 2.5% annual rate in the past six months and a 3.5% annual rate in the past three months, matching the fastest three-month pace since 2012. Shelter and energy prices led the index higher in October, with gasoline up 2.7%. While energy prices have their fits and starts, the trend has been higher since bottoming in February. We expect this to continue, turning the key headwind on inflation we have seen over the past two years into a tailwind. In contrast to the consistent contributions from energy, food prices were unchanged in November for a fifth consecutive month and are down 0.3% in the past year. Stripping out the typically volatile food and energy components, “core” consumer prices rose 0.2% in November and are up 2.1% in the past year. The November increase in “core” consumer prices was led by housing. Owners’ equivalent rent, which makes up about 1/4 of the CPI, rose 0.3% in November, is up 3.5% in the past year – the largest annual rise going back to 2007 - and will be a key source of higher inflation in the year ahead. The worst news in today’s report was a 0.4% decline in real hourly earnings. But real average hourly earnings are still up 0.8% in the past year and, given continued employment gains, should move higher over the next year. In other news this morning, initial jobless claims declined 4,000 last week to 254,000. Continuing claims increased 11,000 to 2.02 million. It’s still early, but plugging these figures into our models suggests payroll growth of about 185,000 in December. On the manufacturing front, sentiment has boomed since the election. The Philly Fed index, a measure for the East Coast, surged to +21.5 in November – the highest reading in more than two years - from +7.6 in November. The Empire State index, which focuses on New York, rose to +9.0 in December from +1.5 in November, led by a jump in new orders.



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



CPI - U	Nov-16	Oct-16	Sep-16	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
<i>All Data Seasonally Adjusted Except for Yr to Yr</i>						
Consumer Price Index	0.2%	0.4%	0.3%	3.5%	2.5%	1.7%
Ex Food & Energy	0.2%	0.1%	0.1%	1.7%	1.9%	2.1%
Ex Energy	0.1%	0.1%	0.1%	1.4%	1.5%	1.7%
Energy	1.2%	3.5%	2.9%	35.0%	15.5%	1.1%
Food and Beverages	0.0%	0.0%	0.0%	-0.1%	-0.2%	-0.3%
Housing	0.2%	0.4%	0.4%	3.7%	3.5%	2.9%
Owners Equivalent Rent	0.3%	0.3%	0.4%	4.0%	3.8%	3.5%
New Vehicles	-0.1%	0.2%	-0.1%	0.2%	0.3%	0.2%
Medical Care	0.0%	0.0%	0.2%	0.7%	4.2%	4.0%
Services (Excluding Energy Services)	0.3%	0.2%	0.2%	2.6%	2.8%	3.0%
Real Average Hourly Earnings	-0.4%	0.1%	0.0%	-1.1%	-0.2%	0.8%

Source: U.S. Department of Labor