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February CPI

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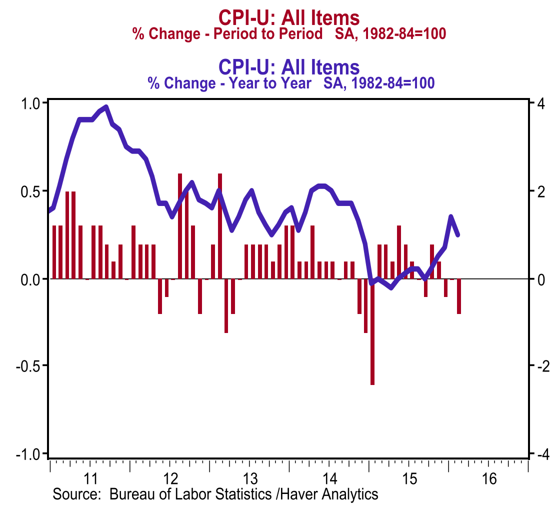
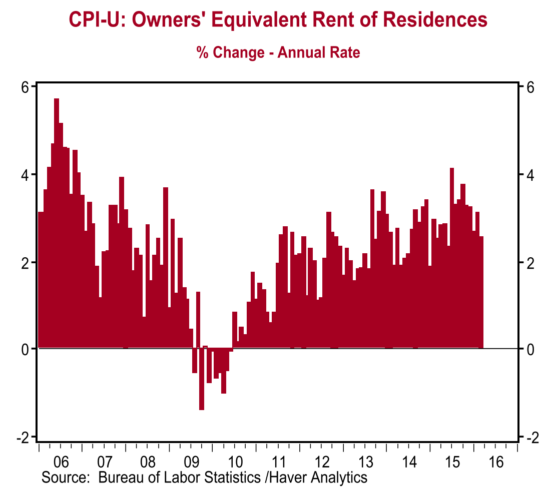
- The Consumer Price Index (CPI) declined 0.2% in February, matching consensus expectations. The CPI is up 1.0% from a year ago.
- "Cash" inflation (which excludes the government's estimate of what homeowners would charge themselves for rent) declined 0.3% in February but is up 0.3% in the past year.
- Energy prices declined 6.0% in February, while food prices increased 0.2%. The "core" CPI, which excludes food and energy, increased 0.3% in February, above the consensus expected 0.2% rise. Core prices are up 2.3% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – remained unchanged in February and are up 1.2% in the past year. Real *weekly* earnings are up 0.6% in the past year.





Implications: The Federal Reserve needs to pay close attention to today's inflation report, which shows the ongoing split between energy prices and prices in the rest of the economy. While February's headline reading for overall consumer prices posted the consensus expected decline of 0.2%, the details of the report show accelerating inflation. The cause of the decline in consumer prices in February was a 13% drop in gasoline prices, which fell to the lowest level since January 2009. Energy prices as a whole (gas plus everything else) didn't fare much better, falling 6%. However, the "core' CPI, which excludes food and energy, rose 0.3% in February. Core prices are up 2.3% versus a year ago, the largest gain since the last recession. In the past three months, core prices are up at a 3% annual rate. These data are a sign that monetary velocity is picking up (the speed that money circulates through the economy). It's also why the Fed can be confident inflation is moving back toward it's 2% target. As soon as energy prices stop falling, and that may have started in March, the headline CPI is going to move back toward the core CPI. The increase in the core CPI in February was led by housing rents and clothing. Owners' equivalent rent, which makes up about ¼ of the CPI, rose 0.3% in February, is up 3.2% in the past year, and will be a key source of higher inflation in the year ahead. Don't be taken by surprise by higher inflation in 2016-17. The Fed is still loose and is likely to stay that way for the foreseeable future. Although it's unlikely, there is still a small chance the Fed hikes rates today. More likely, the next hike will come in June, with one or two more hikes in late 2016.

CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	Feb-16	Jan-16	Dec-15	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**-0.2%**	0.0%	-0.1%	-1.0%	0.0%	1.0%
Ex Food & Energy	**0.3%**	0.3%	0.2%	3.0%	2.6%	2.3%
Ex Energy	**0.3%**	0.3%	0.1%	2.5%	2.3%	2.1%
Energy	**-6.0%**	-2.8%	-2.8%	-37.5%	-25.7%	-12.5%
Food and Beverages	**0.2%**	0.0%	-0.2%	0.2%	0.7%	0.9%
Housing	**0.2%**	0.1%	0.1%	2.0%	2.2%	2.1%
Owners Equivalent Rent	**0.3%**	0.2%	0.2%	3.0%	3.0%	3.2%
New Vehicles	**0.2%**	0.3%	0.0%	2.0%	0.8%	0.6%
Medical Care	**0.5%**	0.5%	0.1%	4.5%	4.4%	3.5%
Services (Excluding Energy Services)	**0.3%**	0.3%	0.2%	3.3%	3.3%	3.1%
Real Average Hourly Earnings	**0.0%**	0.5%	0.1%	2.3%	1.7%	1.2%

Source: U.S. Department of Labor