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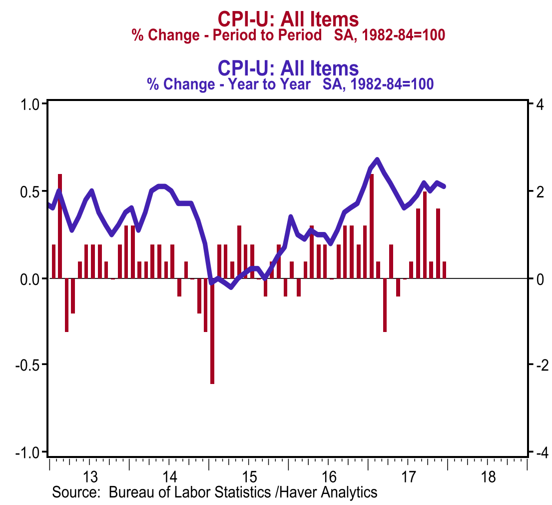
December CPI

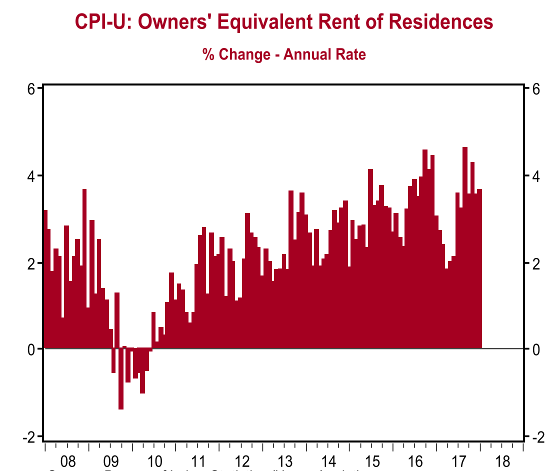
Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

- The Consumer Price Index (CPI) rose 0.1% in December, matching consensus expectations. The CPI is up 2.1% from a year ago.
- Food prices rose 0.2% in December, while energy prices declined 1.2%. The "core" CPI, which excludes food and energy, increased 0.3% in December, above the consensus expected rise of 0.2%. Core prices are up 1.8% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.2% in December and are up 0.4% in the past year. Real average weekly earnings are up 0.7% in the past year.

Implications: Consumer prices rose 0.1% in December, ending 2017 up 2.1% for the year, exactly the same as the increase seen in 2016. However, in the past three months CPI is up at a 2.6% annual rate, signaling that inflation is accelerating further above the Fed's 2% target. A look at the details of today's report shows energy prices declined 1.2% in December, tempering increased prices seen across nearly all other categories. Food prices increased 0.2%, while "core" prices – which exclude the typically volatile food and energy components – rose 0.3% in December. "Core" prices are up 1.8% in the past year, but are showing acceleration in recent months, up at a 2.2% annual rate over the past six-months and 2.5% annualized in the past three months. In other words, both headline and "core" inflation stand near or above the Fed's 2% inflation target, and both have been rising of late. Housing costs led the increase in "core" prices in December, rising 0.3%, and are up 2.9% in the past year. Meanwhile prices for services also rose 0.3% in December and are up 2.6% over the past twelve months. Both remain key components pushing "core" prices higher and should maintain that role in the year ahead. Add in yesterday's report on producer prices that showed rising inflation in the pipeline and we expect consumer price inflation to move around 2.5% or higher by the end of 2018. Given the strength of the labor market, with the unemployment at the lowest level in more than a decade and headed lower, paired with a pickup in the pace of economic activity thanks to improved policy out of Washington, the Fed is on track to raise rates at least three times in 2018, with a fourth hike looking increasingly likely.



Source: Bureau of Labor Statistics /Haver Analytics



Source: Bureau of Labor Statistics /Haver Analytics

CPI - U All Data Seasonally Adjusted Except for Yr to Yr	Dec-17	Nov-17	Oct-17	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.1%	0.4%	0.1%	2.6%	3.5%	2.1%
Ex Food & Energy	0.3%	0.1%	0.2%	2.5%	2.2%	1.8%
Ex Energy	0.3%	0.1%	0.2%	2.3%	2.1%	1.7%
Energy	-1.2%	3.9%	-1.0%	6.9%	22.7%	6.9%
Food	0.2%	0.0%	0.0%	0.9%	1.1%	1.6%
Housing	0.3%	0.2%	0.3%	3.6%	3.1%	2.9%
Owners Equivalent Rent	0.3%	0.2%	0.3%	3.7%	3.6%	3.2%
New Vehicles	0.6%	0.3%	-0.2%	2.8%	-0.4%	-0.5%
Medical Care	0.3%	0.0%	0.3%	2.6%	2.3%	1.8%
Services (Excluding Energy Services)	0.3%	0.2%	0.3%	3.1%	3.1%	2.6%
Real Average Hourly Earnings	0.2%	-0.3%	-0.2%	-1.1%	-0.7%	0.4%

Source: U.S. Department of Labor