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January CPI

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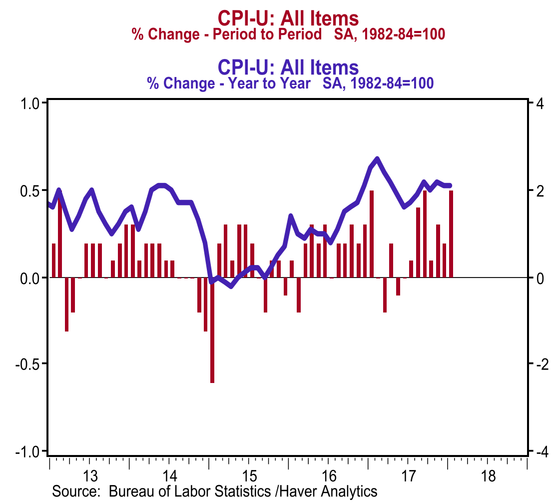
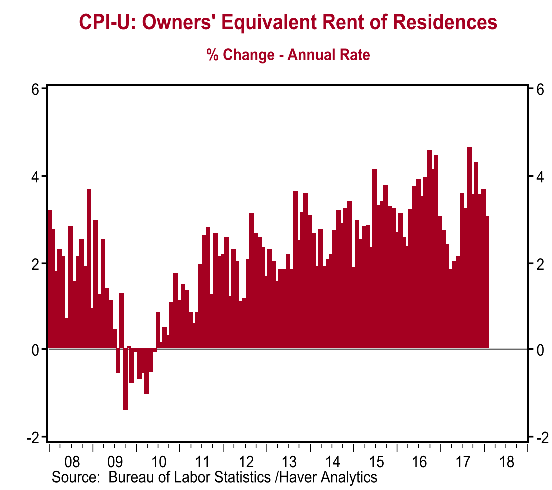
- The Consumer Price Index (CPI) rose 0.5% in January, coming in above the consensus expected increase of 0.3%. The CPI is up 2.1% from a year ago.
- Energy prices rose 3.0% in January, while food prices increased 0.2%. The "core" CPI, which excludes food and energy, increased 0.3% in December, above 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 – declined 0.2% in January but are up 0.8% in the past year. Real average weekly earnings are up 0.4% in the past year.

Implications: New Fed Chief Jerome Powell has his work cut out for him, with consumer prices in January rising at the fastest monthly pace in more than five years. The consumer price index rose 0.5% in January and is up 2.1% in the past year, marking a fifth consecutive month of year-to-year prices rising more than 2%. In the past three months, CPI is up at a 4.4% annual rate, showing clear acceleration above the Fed's 2% target. A look at the details of today's report shows rising prices across most major categories. Energy prices increased 3% in January, while food prices rose 0.2%. But even stripping out volatile food and energy prices shows rising inflation. "Core" prices rose 0.3% in January, the fastest monthly pace since 2005. Core prices are up 1.8% in the past year, but are showing acceleration in recent months, up at a 2.6% annual rate over the past six-months and a 2.9% rate in the past three months. In other words, both headline and core inflation stand above the Fed's 2% target, and both have been rising of late. Housing costs led the increase in "core" prices in January, rising 0.2%, and up 2.8% in the past year. Meanwhile prices for services rose 0.3% in January 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. The most disappointing news in today's report is that real average hourly earnings declined 0.2% in January. However, these earnings are up 0.8% in the past year. And, given the strength of the labor market, with the unemployment rate 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, expect upward pressure on wages in the months ahead. Add it all up, and the Fed is on track to raise rates at least three times in 2018, with a fourth rate hike more likely than not.





CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	Jan-18	Dec-17	Nov-17	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.5%**	0.2%	0.3%	4.4%	4.1%	2.1%
Ex Food & Energy	**0.3%**	0.2%	0.1%	2.9%	2.6%	1.8%
Ex Energy	**0.3%**	0.2%	0.1%	2.7%	2.4%	1.8%
Energy	**3.0%**	-0.2%	3.2%	26.6%	28.3%	5.5%
Food	**0.2%**	0.2%	0.0%	1.7%	1.3%	1.7%
Housing	**0.2%**	0.3%	0.2%	3.0%	3.2%	2.8%
Owners Equivalent Rent	**0.3%**	0.3%	0.2%	3.4%	3.5%	3.2%
New Vehicles	**-0.1%**	0.5%	0.2%	2.8%	0.2%	-1.2%
Medical Care	**0.4%**	0.3%	0.0%	3.2%	2.2%	2.0%
Services (Excluding Energy Services)	**0.3%**	0.3%	0.2%	3.2%	3.3%	2.6%
Real Average Hourly Earnings	**-0.2%**	0.2%	0.0%	0.0%	-0.9%	0.8%

Source: U.S. Department of Labor