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March CPI

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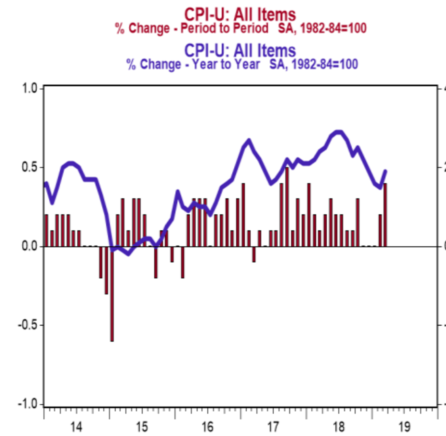
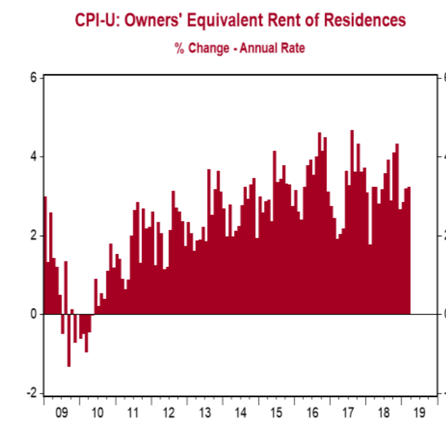
- The Consumer Price Index (CPI) rose 0.4% in March, matching consensus expectations. The CPI is up 1.9% from a year ago.
- Energy prices rose 3.5% in March, while food prices rose 0.3%. The "core" CPI, which excludes food and energy, increased 0.1% in March, coming in below the consensus expected rise of 0.2%. Core prices are up 2.0% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – declined 0.3% in March, but are up 1.3% in the past year. Real average weekly earnings are also up 1.3% in the past year.



Source: Bureau of Labor Statistics/Haver Analytics



Source: Bureau of Labor Statistics/Haver Analytics

Implications: A jump in energy costs pushed the consumer price index higher in March, bringing the twelve-month increase to within a hair of the Fed's 2% inflation target. That said, the Fed knows that both food and energy prices are abnormally volatile from month-to-month, so they put greater weight on "core" prices, which rose 0.1% in March and are up 2.0% in the past year. In other words, no matter how you cut it, inflation is in-line with Fed targets, and shows no signs of the economic paralysis that bond markets are pricing in. Housing and medical care costs – both up 0.3% in March - continue to be the primary drivers pushing "core" prices higher, more than offsetting a 1.9% decline in apparel prices that tied January 1949 for the largest single-month drop on record. More important is that the trend shows prices hovering around the Fed's 2% inflation target, with "core" prices up 2.0% at an annual rate over the past three months and a slightly faster 2.2% annual rate over the past six months. We believe these data, as well as continued strength in employment and the Q1 GDP data we get later this month, support the Fed's most recent "dot plots" suggesting that we are more likely to see another rate hike before a market implied cut. What's currently restraining the Fed from raising rates is the low level of the yield on the 10-year Treasury Note, which doesn't reflect the underlying strength of the economy. The market realization that their forecasts on economic fundamentals were excessively pessimistic, possibly catalyzed by further resolution of trade tensions, should bring more confidence to the financial markets and a return to a more "risk on" environment, which ultimately puts upward pressure on interest rates. The worst news in today's report was that real average hourly earnings fell 0.3% in March. However, they remain up 1.3% in the past year. These earnings rose 0.2% or more in each of the prior four months (and this is only the second monthly decline in the past year), and we believe that the trend higher will continue in the months ahead. Add in the 0.5% increase in total hours worked from the March jobs report, and employees are continuing to see more cash in their pockets. And remember, these earnings do not include irregular bonuses – like the ones paid by companies after the tax cut or to attract new hires – or the value of benefits. Healthy consumers balance sheets, continued strong employment growth, inflation in-line with Fed targets, and GDP growth that looks set to come in well above the dismal forecasts some pundits were promoting earlier this year, all reinforce our belief that the economy is on very solid ground.

CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	Mar-19	Feb-19	Jan-19	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.4%**	0.2%	0.0%	2.3%	1.7%	1.9%
Ex Food & Energy	**0.1%**	0.1%	0.2%	2.0%	2.2%	2.0%
Ex Energy	**0.2%**	0.2%	0.2%	2.2%	2.3%	2.0%
Energy	**3.5%**	0.4%	-3.1%	2.6%	-5.5%	-0.4%
Food	**0.3%**	0.4%	0.2%	3.7%	2.9%	2.1%
Housing	**0.3%**	0.2%	0.2%	3.0%	3.4%	2.9%
Owners Equivalent Rent	**0.3%**	0.3%	0.3%	3.8%	3.5%	3.3%
New Vehicles	**0.4%**	-0.2%	0.2%	1.7%	0.6%	0.7%
Medical Care	**0.3%**	-0.2%	0.2%	1.2%	2.2%	1.7%
Services (Excluding Energy Services)	**0.3%**	0.2%	0.2%	2.7%	2.6%	2.7%
Real Average Hourly Earnings	**-0.3%**	0.2%	0.2%	0.4%	1.3%	1.3%

Source: U.S. Department of Labor