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December CPI

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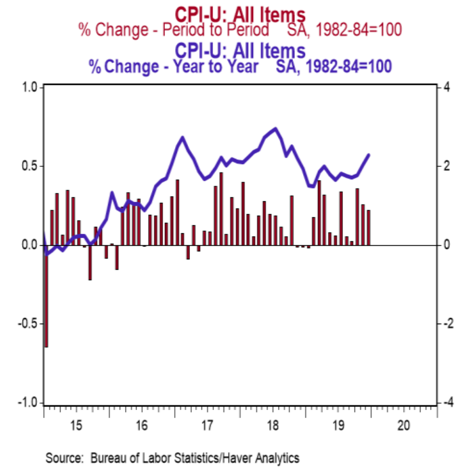
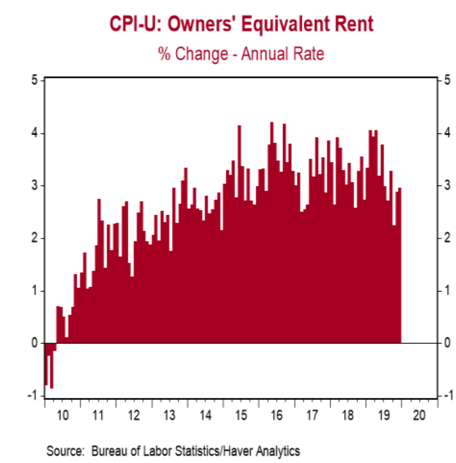
- The Consumer Price Index (CPI) rose 0.2% in December, coming in below the consensus expected increase of 0.3%. The CPI is up 2.3% from a year ago.
- Energy prices rose 1.4% in December, while food prices rose 0.2%. The "core" CPI, which excludes food and energy, increased 0.1% in December, below the consensus expected increase of 0.2%. Core prices are up 2.3% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – declined 0.1% in December, but are up 0.6% in the past year. Real average weekly earnings are unchanged in the past year.





Implications: Consumer prices rose 0.2% in December, ending the year up 2.3%. And inflation is accelerating, up at a 2.5% annualized rate over the past six months and a 3.4% annualized rate over the past three. Energy prices rose 1.4% in December, while food prices rose 0.2%. Strip out the typically volatile food and energy sectors, and "core" prices rose 0.1% in December. Within core inflation, the rise in December can largely be attributed to medical care costs, up 0.6% on the month led higher by prescription drug prices, and shelter, up 0.2%. This upward pressure on prices was partially offset by declining costs for used vehicles and airfare, down 0.8% and 1.6%, respectively, in December. Like the headline reading, core prices are up 2.3% in the past year, just a tick off the highest annual increase we have seen since the recovery started. And "core" prices have hovered at or above the Fed's 2% inflation target for twenty-two consecutive months. That's a signal that everything is looking A-OK. Not too fast, not too slow, just right. Add in employment data continuing to show strength (as it has done through both rate hikes and cuts, suggesting monetary policy is having little impact on the labor market), and it makes sense that the Fed signaled at the last meeting that it doesn't expect further rate cuts unless we see a material change in the economic outlook. On the wage front, real average hourly earnings declined 0.1% in December and are up a modest 0.6% in the past year. With the strength of the labor market, we believe earnings will trend higher in 2020. Healthy consumer balance sheets, a strong job market, inflation in-line with Fed targets, and the continued tail winds from improved tax and regulatory policy, all reinforce our belief that the economy will continue to grow at a healthy pace in the new year.

CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	Dec-19	Nov-19	Oct-19	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.2%**	0.3%	0.4%	3.4%	2.5%	2.3%
Ex Food & Energy	**0.1%**	0.2%	0.2%	2.0%	2.4%	2.3%
Ex Energy	**0.1%**	0.2%	0.2%	2.0%	2.2%	2.2%
Energy	**1.4%**	0.8%	2.7%	21.5%	5.9%	3.4%
Food	**0.2%**	0.1%	0.2%	2.1%	1.4%	1.8%
Housing	**0.1%**	0.2%	0.2%	2.1%	2.3%	2.6%
Owners Equivalent Rent	**0.2%**	0.2%	0.2%	2.7%	2.8%	3.3%
New Vehicles	**0.1%**	-0.1%	-0.2%	-0.6%	-1.1%	0.1%
Medical Care	**0.6%**	0.3%	1.0%	7.7%	6.7%	4.6%
Services (Excluding Energy Services)	**0.2%**	0.3%	0.2%	2.8%	3.1%	3.0%
Real Average Hourly Earnings	**-0.1%**	0.1%	-0.1%	-0.4%	0.5%	0.6%

Source: U.S. Department of Labor