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January CPI

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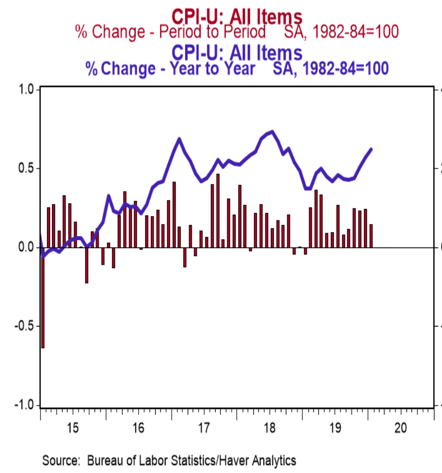
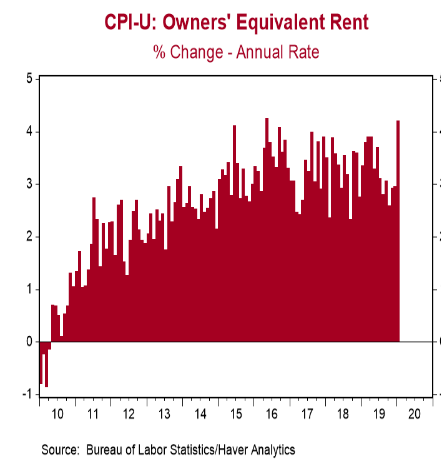
- The Consumer Price Index (CPI) rose 0.1% in January, coming in below the consensus expected increase of 0.2%. The CPI is up 2.5% from a year ago.
- Food prices increased 0.2% in January, while energy prices declined 0.7%. The "core" CPI, which excludes food and energy, increased 0.2% in January, matching consensus expectations. Core prices are up 2.3% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.1% in January and are up 0.6% in the past year. Real average weekly earnings are unchanged in the past year.

Implications: Consumer prices increased 0.1% in January, with prices rising in nearly every major category. Prices for housing, medical care, and food led the index higher in January, partially offset by a decline in the cost of gasoline. Consumer prices are up 2.5% in the past year, tied for the largest twelve-month increase going back to August of 2018. Strip out the typically volatile food and energy sectors, and "core" prices rose 0.2% in January. In addition to housing and medical care, prices for apparel, recreation, education, and airline fares pushed the core reading higher. 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-three consecutive months. Add in employment data continuing to show strength and it makes sense the Fed doesn't expect further rate cuts unless we see a material change in the economic outlook. On the wage front, average hourly earnings rose 0.2% in January and have increased 3.1% in the past year. Take out inflation, and "real" earnings rose 0.1% in January 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 year ahead. In other news this morning, new claims for unemployment benefits rose 2,000 last week to a very low 205,000. Continuing claims fell 61,000 to 1.698 million. These figures are consistent with continued solid payroll growth in February.





CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	Jan-20	Dec-19	Nov-19	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.1%**	0.2%	0.2%	2.5%	2.1%	2.5%
Ex Food & Energy	**0.2%**	0.1%	0.2%	2.3%	2.2%	2.3%
Ex Energy	**0.2%**	0.1%	0.2%	2.2%	2.2%	2.2%
Energy	**-0.7%**	1.6%	0.8%	6.9%	2.6%	6.2%
Food	**0.2%**	0.2%	0.1%	2.0%	1.9%	1.8%
Housing	**0.3%**	0.1%	0.2%	2.7%	2.5%	2.7%
Owners Equivalent Rent	**0.3%**	0.2%	0.2%	3.4%	3.1%	3.4%
New Vehicles	**0.0%**	0.1%	-0.1%	-0.1%	-0.5%	0.1%
Medical Care	**0.2%**	0.5%	0.3%	3.9%	5.4%	4.5%
Services (Excluding Energy Services)	**0.3%**	0.2%	0.3%	3.3%	3.2%	3.1%
Real Average Hourly Earnings	**0.1%**	-0.1%	0.1%	0.4%	0.7%	0.6%

Source: U.S. Department of Labor