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January 13, 2021 • 630.517.7756 • www.ftportfolios.com

December CPI

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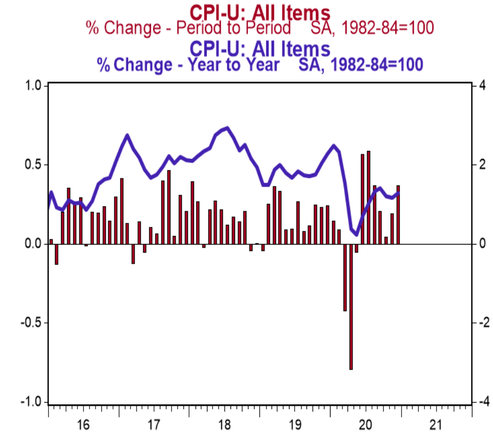
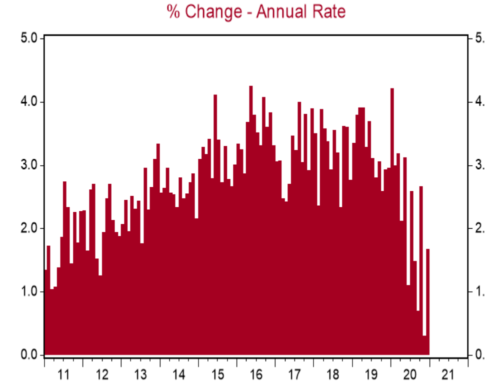
- The Consumer Price Index (CPI) rose 0.4% in December, matching consensus expectations. The CPI is up 1.4% from a year ago.
- Energy prices rose 4.0% in December, while food prices increased 0.4%. The "core" CPI, which excludes food and energy, rose 0.1% in December, also matching consensus expectations. Core prices are up 1.6% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.4% in December and are up 3.7% in the past year. Real average weekly earnings are up 4.9% in the past year.



Source: Bureau of Labor Statistics/Haver Analytics



Source: Bureau of Labor Statistics/Haver Analytics

Implications: Consumer prices continued the trend higher that started back in June, and ended 2020 with prices up 1.4% from where the year began. While the declines of March through May held down the full-year price change, movement since May has been pronounced, up at a 4.1% annualized rate which represents the fastest pace of price gains in nearly a decade. In other words, inflation since the early COVID-19 shutdown months has been running well above the Federal Reserve's inflation target of around 2%. This stands in stark contrast to the annualized decline of 2.5% through May earlier this year during the pandemic. However, don't expect this to change the Fed's plan to keep short-term rates near zero for the foreseeable future. It will still take months for year-ago comparisons to reach and then exceed the 2% target, and even longer before the labor market – the other side of the Fed's dual mandate – has healed to the point the Fed begins to seriously consider a move higher. Still, the recent burst of inflation hints at the impact the massive 24.4% increase in the M2 money supply in the past year can have as supply chains continue to recover. The typically volatile food and energy categories played a significant role in December, as energy prices rose 4.0% (led by a 8.4% jump in the gasoline index) and food prices increased 0.4%. Strip out the food and energy sectors, and "core" prices rose a more modest 0.1% in December, and were up 1.6% in 2020. A dig into the details shows higher prices for apparel, new cars, and home furnishings were partially offset by lower costs for used autos and medical care. We expect inflation to continue to rise in the months ahead toward the 2.0% annual pace that was in effect before the Coronavirus wreaked havoc on global economies. However, underlying fundamentals point to a higher risk of rising inflation than after the 2008 recession. The Coronavirus pandemic is the first recession on record where personal income has increased, due to government stimulus checks and boosted unemployment insurance payments that replaced more than 100% of lost wages for many workers. Meanwhile, measures like industrial production and the unemployment rate demonstrate that the actual production of goods and services remains depressed relative to pre-pandemic levels. That mismatch between supply and demand will eventually mean too many dollars chasing too few goods, and looks likely to be further exacerbated by additional stimulus spending coming as the Democrats secured control of the Senate. That said, it's clear that the economic recovery is under way, the worst economic quarter in the post-World War II era is behind us, and the question now is how quickly we can get back toward "normal" in 2021.

CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	Dec-20	Nov-20	Oct-20	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.4%**	0.2%	0.0%	2.4%	3.6%	1.4%
Ex Food & Energy	**0.1%**	0.2%	0.0%	1.3%	3.1%	1.6%
Ex Energy	**0.1%**	0.2%	0.0%	1.4%	2.6%	2.0%
Energy	**4.0%**	0.4%	0.1%	19.9%	19.0%	-7.0%
Food	**0.4%**	-0.1%	0.2%	1.9%	0.3%	3.9%
Housing	**0.2%**	0.3%	0.1%	2.2%	2.4%	2.0%
Owners Equivalent Rent	**0.1%**	0.0%	0.2%	1.5%	1.6%	2.2%
New Vehicles	**0.4%**	-0.1%	0.4%	3.3%	3.9%	2.0%
Medical Care	**-0.2%**	-0.1%	-0.4%	-2.9%	-0.5%	1.8%
Services (Excluding Energy Services)	**0.1%**	0.2%	0.1%	1.7%	2.3%	1.6%
Real Average Hourly Earnings	**0.4%**	0.1%	0.0%	2.1%	-0.2%	3.7%