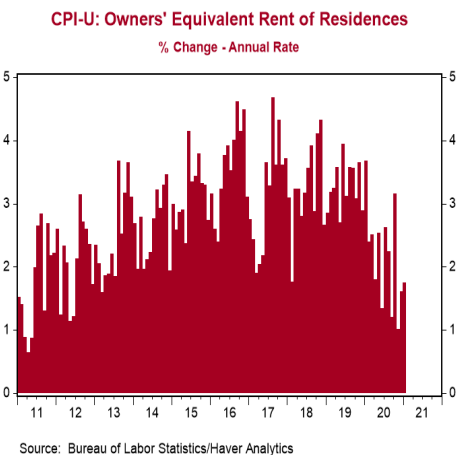
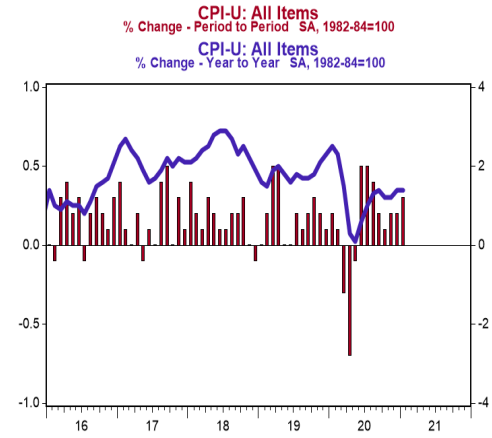


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January CPI

- The Consumer Price Index (CPI) rose 0.3% in January, matching consensus expectations. The CPI is up 1.4% from a year ago.
- Energy prices rose 3.5% in January, while food prices increased 0.1%. The “core” CPI, which excludes food and energy was unchanged in January, coming in below the consensus expected +0.2%. Core prices are also up 1.4% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – were unchanged in January, but are up 4.0% in the past year. Real average weekly earnings are up 6.1% in the past year.

Implications: Consumer prices started 2021 where they left off last year, continuing the trend higher that began back in June. While the declines of March through May continue to hold down the twelve-month price change, movement since last May has been pronounced, up at a 3.7% 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 4.4% in March through May last year, during the onset of the pandemic. Although consumer prices are up only 1.4% from a year ago, the year ago comparisons are about to go much higher. If, for example, consumer prices rise 0.2% per month through May (compared to the 0.3% monthly rise we have averaged over the last eight months), consumer prices would be up 3.3% from a year ago. However, don’t expect that to change the Fed’s plan to keep short-term rates near zero for the foreseeable future. The Fed wants inflation to trend above their 2% target for a prolonged period, while the labor market – the other side of the Fed’s dual mandate – also has to heal considerably further to reach the point at which the Fed begins to seriously consider a move higher. The typically volatile food and energy categories played a significant role in January, as energy prices rose 3.5% (led by a 7.4% jump in the gasoline index) and food prices increased 0.1%. Strip out the food and energy sectors, and “core” prices were unchanged in January. A dig into the details shows higher prices for apparel, medical care, and housing were offset by lower costs for autos, recreation, and airfare. Expect core inflation to rise in the months ahead toward and then beyond the 2.0% annual pace that was in effect before the Coronavirus. Fundamentals point to higher inflation in the next few years. The M2 money supply is up 26.3% in the past year. Also, 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 show 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 will be further exacerbated by the additional stimulus spending on the way. Right now, inflation looks modest when we compare prices to where they were a year ago. Don’t expect that to last.



CPI - U <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Jan-21	Dec-20	Nov-20	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.3%	0.2%	0.2%	2.7%	2.8%	1.4%
Ex Food & Energy	0.0%	0.0%	0.2%	1.0%	1.7%	1.4%
Ex Energy	0.0%	0.1%	0.1%	1.1%	1.7%	1.8%
Energy	3.5%	2.6%	0.7%	30.7%	21.1%	-3.6%
Food	0.1%	0.3%	0.0%	1.6%	1.6%	3.8%
Housing	0.0%	0.2%	0.3%	1.8%	1.9%	1.8%
Owners Equivalent Rent	0.1%	0.1%	0.1%	1.4%	1.6%	2.0%
New Vehicles	-0.5%	0.4%	0.0%	-0.7%	0.9%	1.4%
Medical Care	0.4%	-0.1%	-0.2%	0.2%	-0.5%	1.9%
Services (Excluding Energy Services)	0.0%	0.0%	0.2%	1.1%	1.1%	1.3%
Real Average Hourly Earnings	0.0%	0.7%	0.2%	3.6%	1.2%	4.0%

Source: U.S. Department of Labor