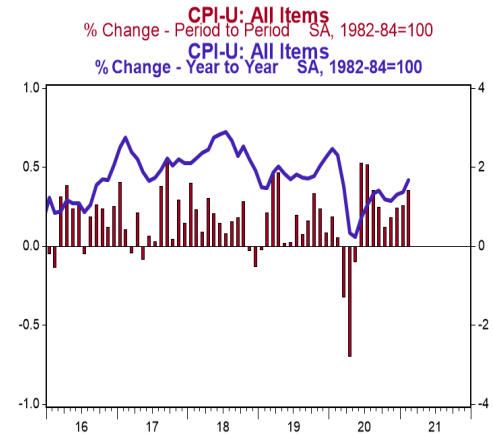


Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Ellass – Senior Economist
Andrew Opdyke – Senior Economist

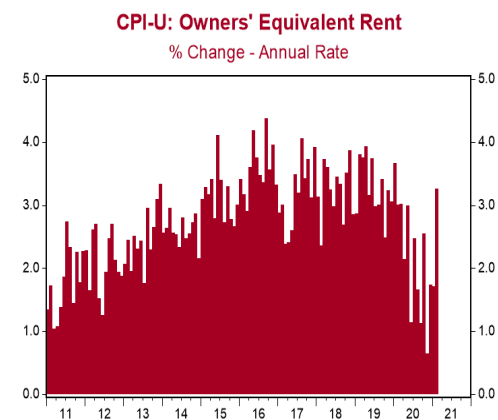
February CPI

- The Consumer Price Index (CPI) rose 0.4% in February, matching consensus expectations. The CPI is up 1.7% from a year ago.
- Energy prices rose 3.9% in February, while food prices increased 0.2%. The “core” CPI, which excludes food and energy rose 0.1% in February, coming in below the consensus expected +0.2%. Core prices are up 1.3% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – declined 0.2% in February, but are up 3.4% in the past year. Real average weekly earnings are up 4.1% in the past year.

Implications: Energy led consumer prices higher in February and recent trends show inflation running well above the Federal Reserve's 2.0% long-run target. Consumer prices rose 0.4% in February. Although they are up a modest 1.7% from a year ago, the year ago comparisons are about to go much higher. Prices dropped at a steep 4.4% annual rate in March thru May last year as the COVID-19 and related restrictions hit the US economy. Since then, they've grown at a 3.8% annual rate, the fastest pace of price gains in nearly a decade. 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 nine months), consumer prices would be up 3.4% 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 the 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 February, as energy prices rose 3.9% (led by a 6.4% jump in the gasoline index) and food prices increased 0.2%. Note that when measuring housing inflation the BLS uses rental prices, which have been held down by government moratoriums on evictions as well as a shift away from rental as people flee to the suburbs. As a result, "core" inflation was up only 0.1% in February and is up only 1.3% versus a year ago. We like to follow "cash inflation," which is everything in the CPI except for owners' equivalent rent. Cash inflation increased 0.4% in February and is up at a 4.4% annual rate since prices began to rise last June. A dig into the details shows higher prices for medical care, recreation, and motor vehicle insurance were offset by lower costs for airfare, apparel, and used autos. Fundamentals point to higher inflation in the next few years. The M2 money supply is up more than 25% in the past year. And government stimulus checks and boosted unemployment insurance payments in response to the pandemic have 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 to be passed this week. Right now, inflation looks modest when we compare prices to where they were a year ago. Don't expect that to last.



Source: Bureau of Labor Statistics/Haver Analytics



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CPI - U	Feb-21	Jan-21	Dec-20	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
<i>All Data Seasonally Adjusted Except for Yr to Yr</i>						
Consumer Price Index	0.4%	0.3%	0.2%	3.5%	2.8%	1.7%
Ex Food & Energy	0.1%	0.0%	0.0%	0.7%	1.2%	1.3%
Ex Energy	0.1%	0.0%	0.1%	1.0%	1.3%	1.6%
Energy	3.9%	3.5%	2.6%	47.8%	28.2%	2.4%
Food	0.2%	0.1%	0.3%	2.4%	1.7%	3.6%
Housing	0.2%	0.0%	0.2%	1.7%	1.9%	1.8%
Owners Equivalent Rent	0.3%	0.1%	0.1%	2.2%	1.8%	2.0%
New Vehicles	0.0%	-0.5%	0.4%	-0.7%	0.8%	1.2%
Medical Care	0.3%	0.4%	-0.1%	2.0%	-0.3%	2.0%
Services (Excluding Energy Services)	0.2%	0.0%	0.0%	1.2%	1.3%	1.3%
Real Average Hourly Earnings	-0.2%	-0.2%	0.8%	1.8%	0.7%	3.4%

Source: U.S. Department of Labor