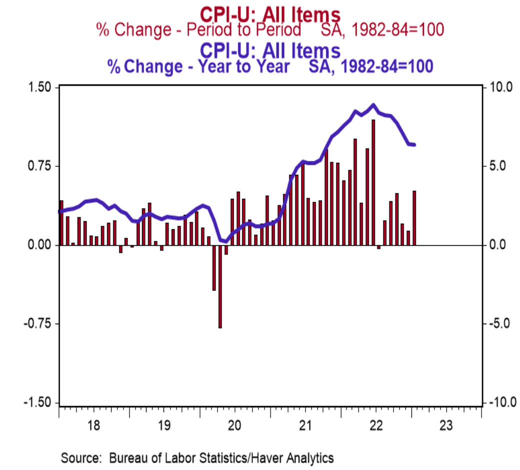
First Trust DATAWATCH

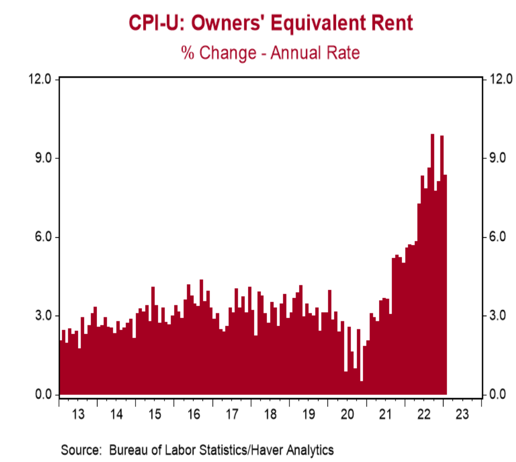
February 14, 2023 • 630.517.7756 • www.ftportfolios.com

January CPI

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist
Bryce Gill – Economist

- The Consumer Price Index (CPI) rose 0.5% in January, matching consensus expectations. The CPI is up 6.4% from a year ago.
- Energy prices increased 2.0% in January, while food prices rose 0.5%. The "core" CPI, which excludes food and energy, rose 0.4% in January, also matching consensus expectations. Core prices are up 5.6% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – declined 0.2% in January and are down 1.8% in the past year. Real average weekly earnings are down 1.5% in the past year.





Implications: Consumer prices reaccelerated in January, rising 0.5% and matching consensus expectations. Yes, some of the increase came from energy prices, which rose 2.0% in the month. However, stripping this category out and it's volatile counterpart – food prices – "core" prices still rose at an elevated 0.4% clip. In the last 12 months, overall prices are up 6.4% while core prices are up 5.6%; both well above the Federal Reserve's 2.0% inflation target. Looking at the details of today's report, housing rents were the main driver, rising 0.7% and accounting for nearly half of the overall increase. Some analysts are pointing to "real-time" rental indexes based on what new tenants are paying, which softened at the end of 2022, as foreshadowing a drop in CPI rents. But this process will take time before they bleed into the CPI, which covers all tenants and homeowners, not just new tenants. We expect housing rent inflation to remain high in 2023 because rents are still catching up to home prices, which skyrocketed during COVID. Other components of the core index were a mix of increases and declines. Among the other categories that declined in January were prices for airline fares (-2.1%), used vehicles (-1.9%), and medical care services (-0.7%). Notably, Jerome Powell mentioned at the last Fed press conference that the Fed is watching a subset category of inflation that some have dubbed the "Super Core" – which excludes food, energy, other goods, and shelter – and which has remained stubbornly high. Although it rose a moderate 0.2% in January, it's still up at a 4.9% annualized pace in the last six months. Meanwhile, annual revisions to the CPI released last Friday showed that prices climbed at a 3.3% annual rate in the last three months of 2022, not the 1.8% rate reported four weeks ago. "Core" inflation, which excludes volatile food and energy prices, were previously reported as up at a relatively moderate 3.1% rate in the last three months of the year; now that's been revised up to a 4.3% pace. Put it all together, Powell and the Fed have plenty of reasons to keep raising rates and keep monetary policy tight in the months to come.

CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	Jan-23	Dec-22	Nov-22	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.5%**	0.1%	0.2%	3.5%	4.1%	6.4%
Ex Food & Energy	**0.4%**	0.4%	0.3%	4.6%	5.3%	5.6%
Ex Energy	**0.4%**	0.4%	0.3%	4.8%	5.7%	6.2%
Energy	**2.0%**	-3.1%	-1.4%	-9.8%	-12.4%	8.7%
Food	**0.5%**	0.4%	0.6%	6.2%	7.8%	10.1%
Housing	**0.8%**	0.7%	0.5%	8.2%	8.4%	8.2%
Owners Equivalent Rent	**0.7%**	0.8%	0.7%	8.8%	8.8%	7.8%
New Vehicles	**0.2%**	0.6%	0.5%	5.2%	6.9%	5.8%
Medical Care	**-0.4%**	0.3%	-0.4%	-1.8%	1.0%	3.1%
Services (Excluding Energy Services)	**0.5%**	0.6%	0.5%	6.8%	7.3%	7.2%
Real Average Hourly Earnings	**-0.2%**	0.3%	0.2%	1.1%	0.4%	-1.8%

Source: U.S. Department of Labor