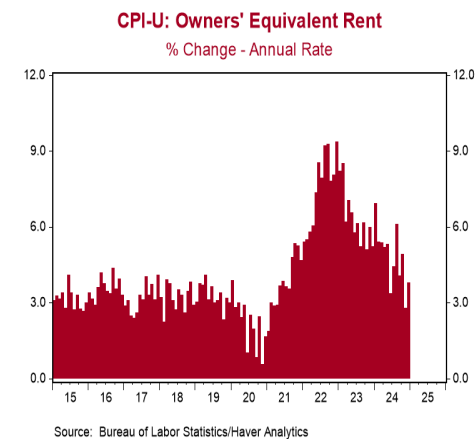
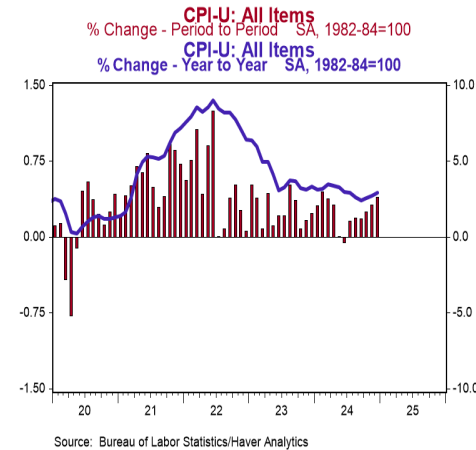


December CPI

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- The Consumer Price Index (CPI) rose 0.4% in December, matching consensus expectations. The CPI is up 2.9% from a year ago.
- Energy prices increased 2.6% in December, while food prices rose 0.3%. The “core” CPI, which excludes food and energy, increased 0.2% in December, below the consensus expected +0.3%. Core prices are up 3.2% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – declined 0.2% in December but are up 1.0% in the past year. Real average weekly earnings are up 0.7% in the past year.

Implications: Inflation picked up in the last month of 2024, proving that the Federal Reserve’s battle is still far from done. Consumer prices jumped 0.4% in December (+4.8% annualized), matching expectations, while the twelve-month reading rose for a third month in a row to 2.9%. The rise in December was led by energy prices, which rose 2.6% due to a 4.4% jump in gasoline prices. However, it’s important to note that rising energy prices are not what’s kept inflation from returning back to the Fed’s 2.0% target; energy prices were down 0.5% in 2024. Stripping out energy and the other often-volatile category for food does not improve the inflation picture. “Core” prices rose 0.2% in December, below the consensus expected +0.3%, but that’s still a 2.7% annualized rate, meaning the pace is still above the Fed’s target. Core prices were up 3.2% in 2024 versus a 3.9% gain in 2023. The main driver of core inflation has been housing rents, which rose 0.3% in December. Some analysts – including those at the Fed – have argued that housing rents have artificially boosted the inflation picture due to the way it’s measured and the lags at which those changes are reflected in the monthly reports. But a subset category of prices the Fed used to tell investors to watch closely but no longer mentions – known as the “Supercore” – which excludes food, energy, other goods, and housing rents, rose 0.2% in December and are up 4.2% in the last year, worse than the 3.9% reading in 2023. No matter which way you cut it, inflation is still running above the Fed’s 2.0% target. And yet, the Fed has cut rates a total of 100bps since September, while the embers of inflation continue to burn. It remains to be seen whether the Fed will have the resolve to keep monetary policy tight until inflation reaches 2.0% or less on a consistent basis. In other news this morning, the Empire State Index, which measures manufacturing sentiment in the New York region, dropped to -12.6 in January from +2.1 in December.



| CPI - U <i>All Data Seasonally Adjusted Except for Yr to Yr</i> | Dec-24 | Nov-24 | Oct-24 | 3-mo % Ch. annualized | 6-mo % Ch. annualized | Yr to Yr % Change |
|--|--------------|--------|--------|--------------------------|--------------------------|----------------------|
| Consumer Price Index | 0.4% | 0.3% | 0.2% | 3.9% | 3.0% | 2.9% |
| Ex Food & Energy | 0.2% | 0.3% | 0.3% | 3.3% | 3.2% | 3.2% |
| Ex Energy | 0.2% | 0.3% | 0.3% | 3.3% | 3.2% | 3.1% |
| Energy | 2.6% | 0.2% | 0.0% | 11.7% | 0.3% | -0.5% |
| Food | 0.3% | 0.4% | 0.2% | 3.5% | 3.1% | 2.5% |
| Housing | 0.3% | 0.3% | 0.4% | 4.0% | 3.9% | 4.1% |
| Owners Equivalent Rent | 0.3% | 0.2% | 0.4% | 3.8% | 4.3% | 4.8% |
| New Vehicles | 0.5% | 0.6% | 0.0% | 4.1% | 2.0% | -0.4% |
| Medical Care | 0.1% | 0.3% | 0.3% | 2.9% | 1.5% | 2.8% |
| Services (Excluding Energy Services) | 0.3% | 0.3% | 0.3% | 3.6% | 4.0% | 4.4% |
| Real Average Hourly Earnings | -0.2% | 0.1% | 0.1% | 0.0% | 0.9% | 1.0% |

Source: U.S. Department of Labor