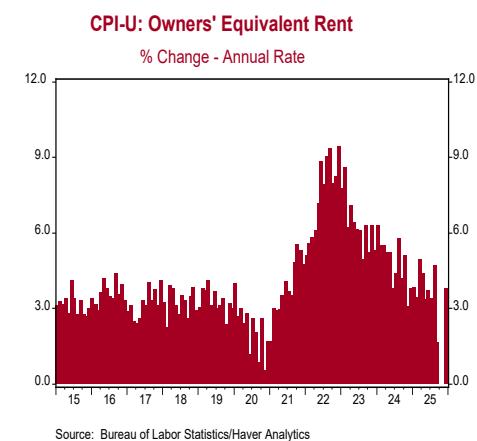
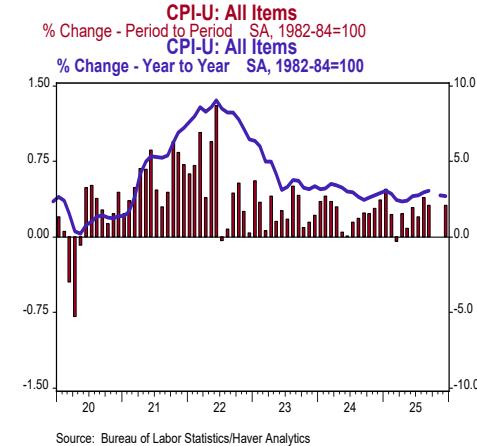


December CPI

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- The Consumer Price Index (CPI) rose 0.3% in December, matching consensus expectations. The CPI is up 2.7% from a year ago.
- Energy prices increased 0.3% in December, while food prices rose 0.7%. The “core” CPI, which excludes food and energy, increased 0.2% in December, below the consensus expected 0.3%. Core prices are up 2.6% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – were unchanged in December, but are up 1.1% in the past year. Real average weekly earnings are also up 1.1% in the past year.

Implications: Headline inflation came in as expected in December, with the Consumer Price index rising 0.3%. “Core” inflation, which strips out food and energy, came in lower than expected, rising 0.2% in December. At the beginning of 2025, we told investors to look past tariffs and instead focus on the M2 measure of the money supply for understanding where inflation will go. Tariffs can raise prices for tariffed items, but they leave less money for consumers to spend on non-imported, non-tariffed goods and services. They shuffle the deckchairs on the inflation ship, not how high or low the ship sits in the water. That’s up to the money supply – and given the slow growth over the last 3+ years – we expected inflation to continue trending lower in 2025. Despite many other analysts warning of a surge in 2025, the CPI finished up 2.7% in 2025 (December over December) versus 2.9% in 2024. Core prices rose 2.6% in 2025 versus 3.2% in 2024. Looking at the details, housing rents (those for actual tenants as well as the imputed rental value of owner-occupied homes) have been the main driver of core inflation over the last few years, but that tide has turned: rents rose 0.3% in December but are up at a 2.2% annualized rate over the last three months, which lags both headline and core inflation. Meanwhile, airline prices continue to move in large swings, rising 5.2% in December after falling a combined 6.6% in October/November. Other notable movers were the recreation index (which includes prices for recreational goods and services such as sporting events) rising 1.2% in December, the largest monthly increase ever recorded for that category going back to 1993. Meanwhile, the communication index fell 1.9% in December, while used car prices dropped 1.1%, and new vehicles prices were unchanged. In spite of the downward trend in inflation, the Federal Reserve is unlikely to cut short-term rates again in January unless it sees a slowdown in economic growth or greater weakness in the labor market. However, Chairman Powell’s term ends in May, and regardless of who he is replaced by, there could be a substantive shift in the tone coming from the Fed with the changing of the guard. We, however, will be keeping our eyes on the M2 money supply, which remains our North Star on inflation.



CPI - U All Data Seasonally Adjusted Except for Yr to Yr	Dec-25	Nov-25	Oct-25	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.3%	NA	NA	2.1%	2.8%	2.7%
<i>Ex Food & Energy</i>	0.2%	NA	NA	1.6%	2.6%	2.6%
<i>Ex Energy</i>	0.3%	NA	NA	1.8%	2.7%	2.7%
Energy	0.3%	NA	NA	5.7%	5.1%	2.3%
Food	0.7%	NA	NA	3.1%	3.1%	3.1%
Housing	0.4%	NA	NA	2.9%	2.9%	3.6%
Owners Equivalent Rent	0.3%	NA	NA	2.3%	2.8%	3.3%
New Vehicles	0.0%	0.2%	0.1%	1.3%	1.7%	0.3%
Medical Care	0.4%	NA	NA	1.9%	2.4%	3.2%
Services (Excluding Energy Services)	0.3%	NA	NA	1.8%	2.9%	3.0%
Real Average Hourly Earnings	0.0%	NA	NA	1.8%	1.1%	1.1%

Source: Bureau of Labor Statistics