First Trust DATAWATCH

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November CPI

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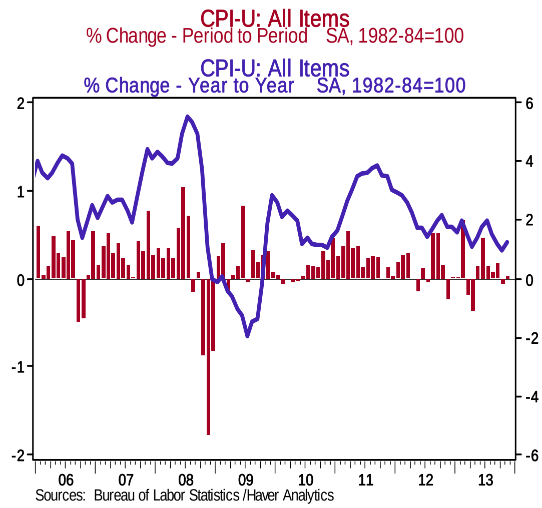
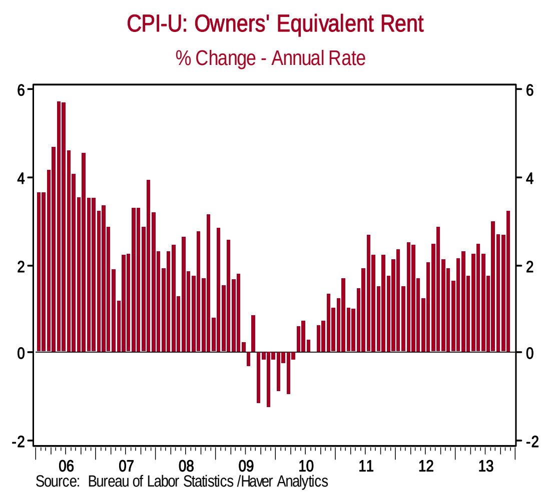
- The Consumer Price Index (CPI) remained unchanged in November versus consensus expectations of a 0.1% rise. The CPI is up 1.2% versus a year ago.
- "Cash" inflation (which excludes the government's estimate of what homeowners would charge themselves for rent) was unchanged in November and is up only 0.9% in the past year.
- The unchanged CPI in November was the result of a 1.0% decline in energy prices offsetting increases in most other major categories. Food prices rose 0.1%. The "core" CPI, which excludes food and energy, was up 0.2% in November, slightly above consensus expectations of a 0.1% rise. Core prices are up 1.7% versus a year ago.
- Real average hourly earnings – the cash earnings of all employees, adjusted for inflation – rose 0.2% in November, and are up 0.9% in the past year. Real *weekly* earnings are up 1.1% in the past year.





Implications: Ahead of the Fed statement tomorrow, overall consumer price inflation remains quiet. Once again, falling energy prices offset gains in most other major categories. Outside of the energy sector, prices were up 0.1% in November. "Core" prices, which exclude food and energy, rose 0.2% in November and are up 1.7% in the past year. Despite generally quiet inflation of late, there is a rising trend in housing inflation that may help push overall inflation higher over the next couple of years. Owners equivalent rent (the government's estimate of what homeowners would charge themselves for rent) rose 0.3%, the largest gain for any month in 6 years. Given recovering home prices, we expect rents to accelerate in the years ahead. Regardless, for the time being, neither overall inflation nor core inflation is setting off alarm bells. Instead, they suggest the Fed's preferred measure of inflation, the PCE deflator (which usually runs a ¼ point below the overall CPI) will remain well below the Fed's target of 2%. We don't expect this to last and expect that inflation will be around the 2% target a year from now. However, for the Fed, the key measure of inflation is its own forecast of future inflation. So, even if inflation moves higher, as long as the Fed projects the rise to be temporary it will not react by raising short-term interest rates. The Fed is more focused on the labor market and, we think, is willing to let inflation exceed its long-term target of 2% for a prolonged period of time until the jobless rate comes down. The best news in today's report was that "real" (inflation-adjusted) average hourly earnings rose 0.2% in November and are up 0.9% in the past year. Given today's news it looks like "real" (inflation-adjusted) consumer spending is growing at a 3.0%-3.5% annual rate in Q4, which should keep real GDP growth positive even if inventory accumulation slows substantially in the quarter.

CPI - U *All Data Seasonally Adjusted*	Nov-13	Oct-13	Sep-13	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.0%**	-0.1%	0.2%	0.6%	1.8%	1.2%
Ex Food & Energy	**0.2%**	0.1%	0.1%	1.6%	1.7%	1.7%
Ex Energy	**0.1%**	0.1%	0.1%	1.5%	1.7%	1.6%
Energy	**-1.0%**	-1.7%	0.8%	-7.3%	3.0%	-2.4%
Food and Beverages	**0.1%**	0.1%	0.0%	1.0%	1.4%	1.2%
Housing	**0.2%**	0.1%	0.3%	2.3%	1.7%	2.1%
Owners Equivalent Rent	**0.3%**	0.2%	0.2%	2.9%	2.6%	2.4%
New Vehicles	**-0.1%**	-0.1%	0.2%	-0.3%	0.7%	0.6%
Medical Care	**0.0%**	0.0%	0.3%	1.1%	3.1%	2.2%
Services (Excluding Energy Services)	**0.3%**	0.2%	0.2%	2.7%	2.4%	2.4%
Real Average Hourly Earnings	**0.2%**	0.1%	0.0%	1.2%	0.4%	0.9%

Source: U.S. Department of Labor