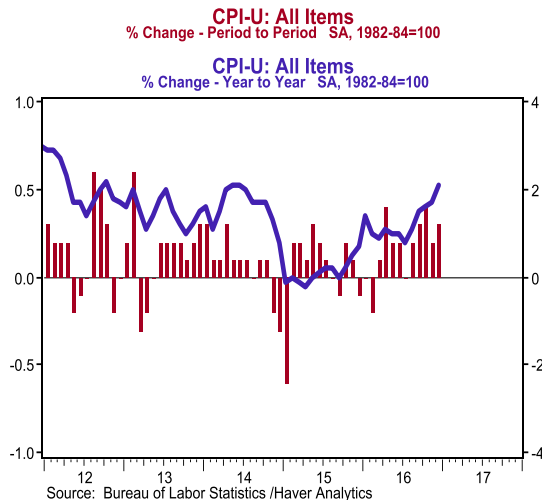


# December CPI

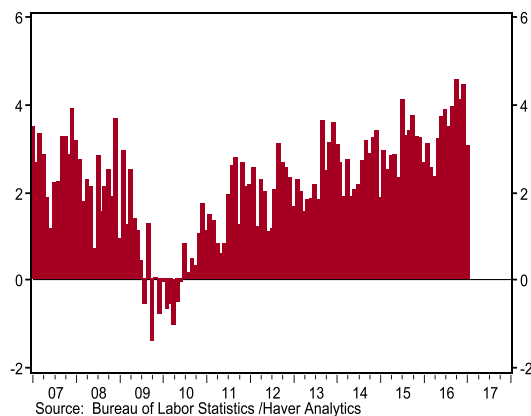
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- The Consumer Price Index (CPI) increased 0.3% in December, matching consensus expectations. The CPI is up 2.1% from a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) rose 0.3% in December and is up 1.7% in the past year.
- Energy prices rose 1.5% in December, while food prices were unchanged. The “core” CPI, which excludes food and energy, increased 0.2% in December, matching consensus expectations. Core prices are up 2.2% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.1% in December and are up 0.8% in the past year. Real average weekly earnings are up 0.2% in the past year.

**Implications:** A fitting reading on consumer prices for the final month of 2016, as December’s 0.3% rise in prices pushed the twelve-month increase above the Fed’s 2.0% target for the first time in more than two years. That is a significant pickup from the 0.7% increase we saw in 2015, and we expect 2017 will continue to see prices move gradually higher. Year-to-year prices have been steadily on the rise over recent months as energy prices, up 1.5% in December and rising at a 27.4% annual rate in the past three months, have turned into a tailwind after serving as a headwind for much of the past two-and-a-half years. Energy prices will likely average at modestly higher prices than 2016, but even stripping out energy and food prices – the latter of which have now been unchanged for six consecutive months – shows inflation up 2.2% in the past year, just a tad higher than the 2.1% gain in 2015. The “core” measure was once again led higher by housing prices in December. Owners’ equivalent rent, which makes up about ¼ of the CPI, rose 0.3% in December, is up 3.6% in the past year – the largest annual rise going back to 2007 - and will be a key source of higher inflation in the year ahead. On the earnings front, today’s report shows real average hourly earnings rising 0.1% in December. Real earnings rose a modest 0.8% in 2016, a slower pace than the 1.9% gain in 2015, but given continued employment gains this should move higher over the next year. With prices - both including and excluding food & energy costs – rising at or above the Fed’s 2% target and continuing a steady climb higher, paired with continued strength in employment, we expect the Fed to raise rates three (and possibly four) times in 2017.



**CPI-U: Owners' Equivalent Rent of Residences**  
 % Change - Annual Rate



<b>CPI - U</b> <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	<b>Dec-16</b>	<b>Nov-16</b>	<b>Oct-16</b>	<b>3-mo % Ch.</b> <b>annualized</b>	<b>6-mo % Ch.</b> <b>annualized</b>	<b>Yr to Yr</b> <b>% Change</b>
<b>Consumer Price Index</b>	<b>0.3%</b>	0.2%	0.4%	3.4%	2.6%	2.1%
<b>Ex Food &amp; Energy</b>	<b>0.2%</b>	0.2%	0.1%	2.1%	2.0%	2.2%
<b>Ex Energy</b>	<b>0.2%</b>	0.1%	0.1%	1.8%	1.7%	1.8%
<b>Energy</b>	<b>1.5%</b>	1.2%	3.5%	27.4%	15.8%	5.4%
<b>Food and Beverages</b>	<b>0.0%</b>	0.0%	0.0%	-0.4%	-0.2%	-0.1%
<b>Housing</b>	<b>0.3%</b>	0.2%	0.4%	3.4%	3.6%	3.0%
<b>Owners Equivalent Rent</b>	<b>0.3%</b>	0.3%	0.3%	3.7%	3.7%	3.6%
<b>New Vehicles</b>	<b>0.1%</b>	-0.1%	0.2%	1.1%	0.9%	0.3%
<b>Medical Care</b>	<b>0.2%</b>	0.0%	0.0%	0.9%	4.0%	4.1%
<b>Services (Excluding Energy Services)</b>	<b>0.3%</b>	0.3%	0.2%	3.0%	2.8%	3.1%
<b>Real Average Hourly Earnings</b>	<b>0.1%</b>	-0.3%	0.1%	-0.4%	0.4%	0.8%

Source: U.S. Department of Labor