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November CPI

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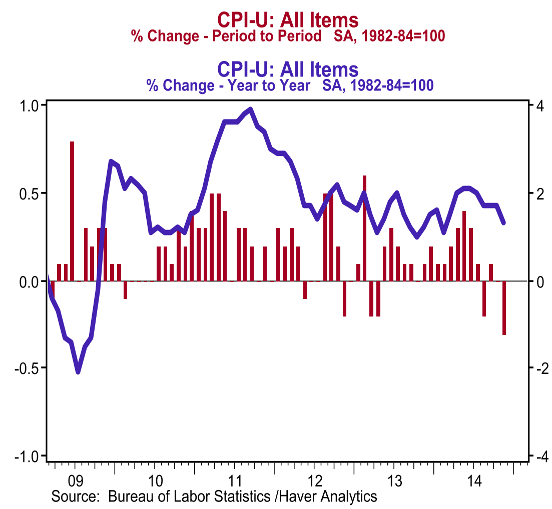
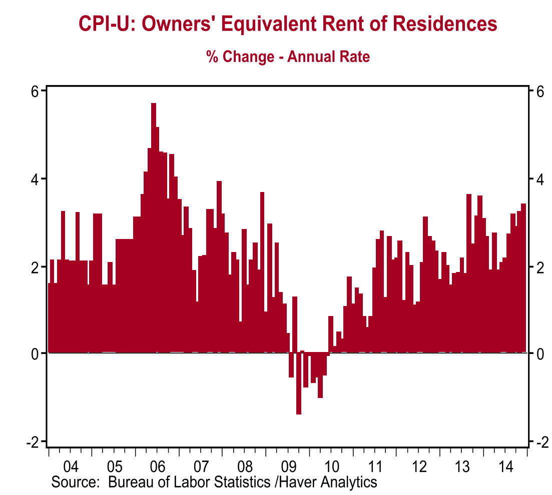
- The Consumer Price Index (CPI) declined 0.3% in November, coming in below consensus expectations of -0.1%. The CPI is up 1.3% versus a year ago.
- "Cash" inflation (which excludes the government's estimate of what homeowners would charge themselves for rent) declined 0.4% in November, but is up 0.9% in the past year.
- Energy prices declined 3.8% in November, while food prices increased 0.3%. The "core" CPI, which excludes food and energy, rose 0.1%, matching consensus expectations. Core prices are up 1.7% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.6% in November, and are up 0.8% in the past year. Real *weekly* earnings are up 1.1% in the past year.





Implications: Due to plummeting oil prices, overall consumer prices declined in November at the fastest pace since the Panic back in late 2008. Despite the drop in prices, we still expect the Federal Reserve to remove the "considerable time" language in its statement this afternoon, which is a reference to how long they expect to keep short-term interest rates near zero. In the past, Fed Chief Janet Yellen has said short term movements in overall prices are sometimes little more than "noise," and we anticipate the Fed will view today's CPI report the same way. In turn, removing the language from the statement and replacing it with a word like "patient," means the first rate hike should come in June 2015. Energy prices are the key reason for the "noise" we've seen lately in the CPI. They fell for a fifth straight month in November and are down at a 22.7% annual rate over the past three months. Gas is now below $3 per gallon in every one of the lower 48 states. One of the key reasons for the drop in energy prices is America's booming energy production. (For more on oil, see our Monday Morning Outlook from two days ago.) As a result, consumer prices are up a modest 1.3% in the past year. Given the continued drop in oil prices in the first half of December, look for another tame reading on overall price gains in next month's report. However, there are sectors where inflation is moving higher. Food and beverage prices are up at a 2.7% annual rate in the past six months and up 3.1% in the past year. So if you only use the supermarket to gauge inflation, we understand thinking the headline reports are too low and that "true" inflation is higher. In addition, housing costs are going up. Owners' equivalent rent, which makes up about ¼ of the overall CPI, rose 0.2% in November, is up 2.7% in the past year, and will be a key source of any acceleration in inflation in the year ahead. In other words, there is no broad, tight-money-induced deflation out there, but increasing prices remain subdued - for now. One of the best pieces of news in today's report was that "real" (inflation-adjusted) average hourly earnings rose 0.6% in November. These earnings are up 0.8% from a year ago and should continue to provide a boost to real consumer spending, which we now forecast should grow at a 3%+ annual rate in Q4, consistent with real GDP growth of around 2.5%.

CPI - U *All Data Seasonally Adjusted*	Nov-14	Oct-14	Sep-14	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**-0.3%**	0.0%	0.1%	-0.7%	0.0%	1.3%
Ex Food & Energy	**0.1%**	0.2%	0.1%	1.7%	1.3%	1.7%
Ex Energy	**0.1%**	0.2%	0.2%	1.8%	1.5%	1.9%
Energy	**-3.8%**	-1.9%	-0.7%	-22.7%	-14.5%	-4.8%
Food and Beverages	**0.3%**	0.1%	0.3%	2.9%	2.7%	3.1%
Housing	**0.2%**	0.2%	0.2%	2.3%	1.9%	2.6%
Owners Equivalent Rent	**0.2%**	0.2%	0.2%	2.9%	2.8%	2.7%
New Vehicles	**-0.1%**	0.2%	0.0%	0.6%	0.6%	0.6%
Medical Care	**0.4%**	0.2%	0.2%	3.1%	2.2%	2.5%
Services (Excluding Energy Services)	**0.2%**	0.3%	0.2%	2.7%	2.0%	2.5%
Real Average Hourly Earnings	**0.6%**	0.1%	-0.1%	2.3%	2.3%	0.8%

Source: U.S. Department of Labor