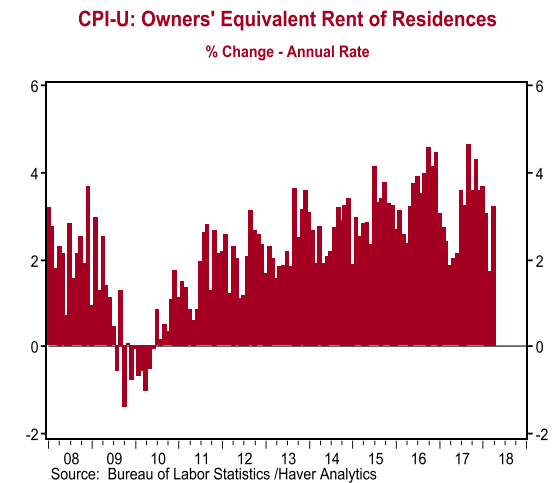
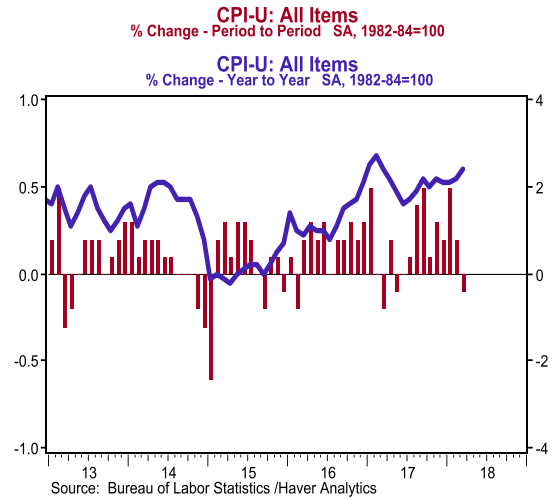


March CPI

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- The Consumer Price Index (CPI) declined 0.1% in March, coming in below the consensus expectation for no change. The CPI is up 2.4% from a year ago.
- Energy prices declined 2.8% in March, while food prices rose 0.1%. The “core” CPI, which excludes food and energy, increased 0.2% in March, matching consensus expectations. Core prices are up 2.1% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.4% in March and are up 0.4% in the past year. Real average weekly earnings are up 0.9% in the past year.

Implications: Falling gasoline prices pushed the consumer price index lower in March, masking a gain in most other categories. Gas prices fell 4.9% for the month, pushing energy prices down 2.8%. Meanwhile food prices rose a modest 0.1% in March. Stripping out these two typically volatile components shows “core” prices increased 0.2% in March. Core prices are now up 2.1% in the past year and accelerating, up at a 2.6% annual rate in the past six months and a 2.9% annual rate in the past three months. To put that into perspective, the 2.6% annual rate over the past six months is tied for the fastest pace going back to 2008. Paired together, the persistent and consistent rise in prices and the acceleration in recent months has the Fed at risk of falling behind the curve if they hesitate in raising rates four times in 2018. A closer look at “core” prices shows housing and medical costs led the increase in March, rising 0.3% and 0.4%, respectively. Both remain key components pushing core prices higher and should maintain that role in the year ahead. Among the best news in today’s report was a 0.4% increase in real average hourly earnings in March. These inflation-adjusted hourly earnings have shown little movement over recent months, however this earnings data does not include irregular bonuses – like the ones paid by companies after the tax cut. In addition, earnings are still up a modest 0.4% in the past year, while job growth is accelerating. We expect a visible pickup in wage pressures in the months ahead. In sum, the headline news from today’s report is the continued acceleration in core inflation, which increases pressure on the data-dependent Fed to lift interest rates.



CPI - U <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Mar-18	Feb-18	Jan-18	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	-0.1%	0.2%	0.5%	2.5%	2.5%	2.4%
<i>Ex Food & Energy</i>	0.2%	0.2%	0.3%	2.9%	2.6%	2.1%
<i>Ex Energy</i>	0.2%	0.2%	0.3%	2.6%	2.4%	2.0%
Energy	-2.8%	0.1%	3.0%	1.0%	3.8%	7.0%
Food	0.1%	0.0%	0.2%	1.3%	1.3%	1.3%
Housing	0.3%	0.3%	0.2%	3.1%	3.2%	3.0%
Owners Equivalent Rent	0.3%	0.2%	0.3%	3.2%	3.4%	3.3%
New Vehicles	0.0%	-0.5%	-0.1%	-2.1%	0.0%	-1.2%
Medical Care	0.4%	-0.1%	0.4%	2.8%	2.5%	2.0%
Services (Excluding Energy Services)	0.3%	0.2%	0.3%	3.3%	3.2%	2.9%
Real Average Hourly Earnings	0.4%	-0.1%	-0.3%	0.0%	-0.2%	0.4%

Source: U.S. Department of Labor