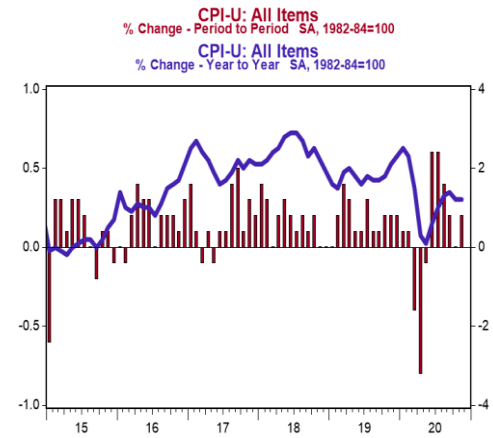


November CPI

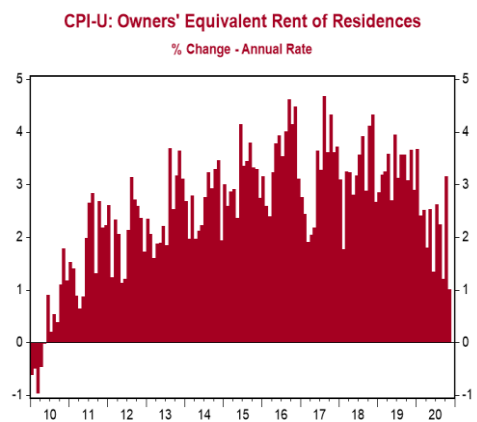
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- The Consumer Price Index (CPI) rose 0.2% in November, coming in above the consensus expected increase of 0.1%. The CPI is up 1.2% from a year ago.
- Energy prices rose 0.4% in November, while food prices declined 0.1%. The “core” CPI, which excludes food and energy, rose 0.2% in November, coming in above the consensus expected increase of 0.1%. Core prices are up 1.6% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.1% in November and are up 3.2% in the past year. Real average weekly earnings are up 4.7% in the past year.

Implications: Following a pause in October, consumer prices rose faster than the consensus expected in November and are now up at the fastest six-month pace in nearly a decade. With prices up at a 4.0% annualized rate since May inflation is running comfortably above the Federal Reserve’s inflation target of around 2%. This stands in stark contrast to the annualized decline of 1.6% through May earlier this year during the pandemic. However, don’t expect this to change the Fed’s plan to keep short-term rates near zero for the foreseeable future. Given the drop in prices earlier this year during the worst of the pandemic and related shutdowns, consumer prices are up a tepid 1.2% versus a year ago. Still, the recent burst of inflation hints at the impact the massive 24.2% increase in the M2 money supply in the past year can have as supply chains continue to recover. The typically volatile food and energy categories largely offset each other in November, as energy prices rose 0.4% and food prices declined 0.1%. Strip out the impacts from the food and energy sectors, and “core” prices rose 0.2% in November. A dig into the details shows prices broadly rising across categories, led by housing (+0.3%), household furnishings (+0.9%) and apparel (+0.9%), which were partially offset by lower prices for medical care (-0.1%) and autos (where prices declined -0.1% for new vehicles and -1.3% for used cars and trucks). Over the past year, core prices are up 1.6%. We expect inflation will continue to rise in the months ahead toward the 2.0% annual pace of inflation that was in effect before the Coronavirus wreaked havoc on global economies. However, underlying fundamentals point to a higher risk of rising inflation than after the 2008 recession. The Coronavirus pandemic is the first recession on record where personal income has increased, due to government stimulus checks and boosted unemployment insurance payments that replaced more than 100% of lost wages for many workers. Meanwhile, measures like industrial production and the unemployment rate demonstrate that the actual production of goods and services remains depressed relative to pre-pandemic levels. That mismatch between supply and demand will eventually mean too many dollars chasing too few goods, especially if further stimulus measures continue to lean on the same policies. That said, it’s clear that the economic recovery is under way, the worst economic quarter in the post-World War II era is behind us, and the question now is how quickly we can get back to “normal.” In employment news this morning, initial jobless claims rose 137,000 last week to 853,000. Meanwhile, continuing claims for regular benefits rose 230,000 to 5,757 million. Rising COVID-19 cases, and the return to restrictions as a response, are having an impact on the employment market. While job gains may slow over the next few months, we expect employment growth to reaccelerate as we enter the Spring, with the unemployment rate ultimately declining to around 5.0% by late 2021. That’s up from the 3.5% rate seen pre-pandemic, but a massive improvement from the peak of 14.7% back in April.



Source: Bureau of Labor Statistics/Haver Analytics



Source: Bureau of Labor Statistics/Haver Analytics

CPI - U	Nov-20	Oct-20	Sep-20	3-mo % Ch.	6-mo % Ch.	Yr to Yr
<i>All Data Seasonally Adjusted Except for Yr to Yr</i>				annualized	annualized	% Change
Consumer Price Index	0.2%	0.0%	0.2%	1.8%	4.0%	1.2%
Ex Food & Energy	0.2%	0.0%	0.2%	1.7%	3.4%	1.6%
Ex Energy	0.2%	0.0%	0.2%	1.5%	3.0%	1.9%
Energy	0.4%	0.1%	0.8%	5.6%	21.5%	-9.4%
Food	-0.1%	0.2%	0.0%	0.4%	0.7%	3.7%
Housing	0.3%	0.1%	0.2%	2.2%	2.4%	2.0%
Owners Equivalent Rent	0.0%	0.2%	0.1%	1.2%	1.5%	2.3%
New Vehicles	-0.1%	0.4%	0.3%	2.7%	3.1%	1.6%
Medical Care	-0.1%	-0.4%	0.0%	-2.2%	0.7%	2.4%
Services (Excluding Energy Services)	0.2%	0.1%	0.0%	1.3%	2.7%	1.7%
Real Average Hourly Earnings	0.1%	0.0%	-0.1%	0.0%	-4.6%	3.2%

Source: U.S. Department of Labor