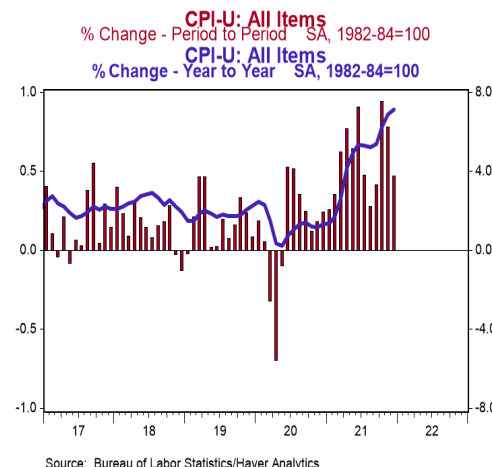


# December CPI

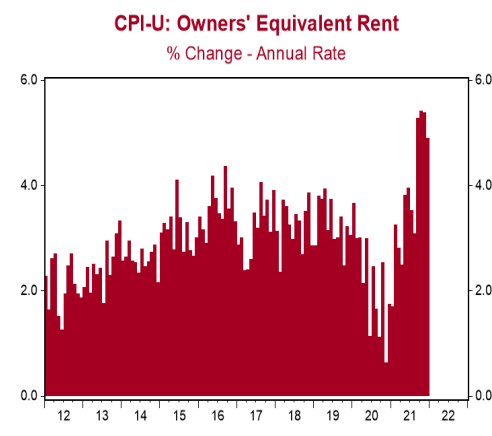
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- The Consumer Price Index (CPI) increased 0.5% in December, more than the consensus expected +0.4%. The CPI is up 7.0% from a year ago.
- Food prices increased 0.5% in December, while energy prices decreased 0.4%. The “core” CPI, which excludes food and energy, rose 0.6% in December, more than the consensus expected 0.5%. Core prices are up 5.5% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – increased 0.1% in December but are down 2.4% in the past year. Real average weekly earnings are down 2.3% in the past year.

**Implications:** Consumer prices continued their rapid ascent in December, rising 0.5% for the month, and pushing the 12-month increase for the year of 2021 to 7.0%, the largest in nearly 40 years. Inflation in December was broad-based, with shelter, food, and new and used vehicles all making significant contributions. Housing rents (rents for both actual tenants and the rental value of owner-occupied homes) showed no signs of slowing down, rising 0.4% for the fourth consecutive month. Rents are important to watch now that a national eviction moratorium has ended and home prices are up a blistering 28% since before COVID. Rents make up more than 30% of the overall CPI, so we expect it to be a key driver for inflation in 2022 and the years to come. Meanwhile, food prices increased 0.5% on the backs of higher costs for dairy as well as fruits and vegetables. Energy prices declined 0.4% in December, as prices for gasoline and natural gas both decreased (-0.5% and -1.2%, respectively). Stripping out the volatile food and energy components, “core” prices rose 0.6% for the month and are up 5.5% in the past year, which is also another multi-decade high. Prices for new and used vehicles continue to be a driver for core inflation, rising 1.0% and 3.5% , respectively, for the month. It’s important to recognize the inflation experienced today is not merely a rebound from the steep price declines in 2020 when COVID first hit the US; consumer prices are up at a 4.4% annual rate since February 2020 and core prices are up 3.6%, both well above the Fed’s long-term inflation target of 2.0%. The December 2020 forecast from the Fed for inflation in 2021 to come in at 1.8% shows its models fundamentally misunderstand the driver of sustained inflation. This inflation has never been transitory, and it appears the Fed has finally arrived at the same conclusion by announcing a pickup in the pace of tapering asset purchases and signaling a readiness for multiple rate hikes in 2022. The bad news is the Fed is very late to the party. As the massive 39% increase in the money supply continues to gain traction, inflation will be a key indicator to watch in 2022.



Source: Bureau of Labor Statistics/Haver Analytics



Source: Bureau of Labor Statistics/Haver Analytics

CPI - U	Dec-21	Nov-21	Oct-21	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
<i>All Data Seasonally Adjusted Except for Yr to Yr</i>						
<b>Consumer Price Index</b>	<b>0.5%</b>	0.8%	0.9%	9.1%	6.9%	7.0%
<b>Ex Food &amp; Energy</b>	<b>0.6%</b>	0.5%	0.6%	6.9%	4.8%	5.5%
<b>Ex Energy</b>	<b>0.5%</b>	0.6%	0.6%	7.2%	5.4%	5.6%
<b>Energy</b>	<b>-0.4%</b>	3.5%	4.8%	35.9%	28.5%	29.3%
<b>Food</b>	<b>0.5%</b>	0.7%	0.9%	8.8%	8.6%	6.3%
<b>Housing</b>	<b>0.4%</b>	0.5%	0.7%	6.9%	6.2%	5.1%
<b>Owners Equivalent Rent</b>	<b>0.4%</b>	0.4%	0.4%	5.2%	4.6%	3.8%
<b>New Vehicles</b>	<b>1.0%</b>	1.1%	1.4%	14.8%	16.5%	11.8%
<b>Medical Care</b>	<b>0.3%</b>	0.2%	0.5%	4.1%	3.0%	2.2%
<b>Services (Excluding Energy Services)</b>	<b>0.3%</b>	0.4%	0.4%	4.6%	3.3%	3.7%
<b>Real Average Hourly Earnings</b>	<b>0.1%</b>	-0.4%	-0.4%	-2.8%	-1.1%	-2.4%

Source: U.S. Department of Labor