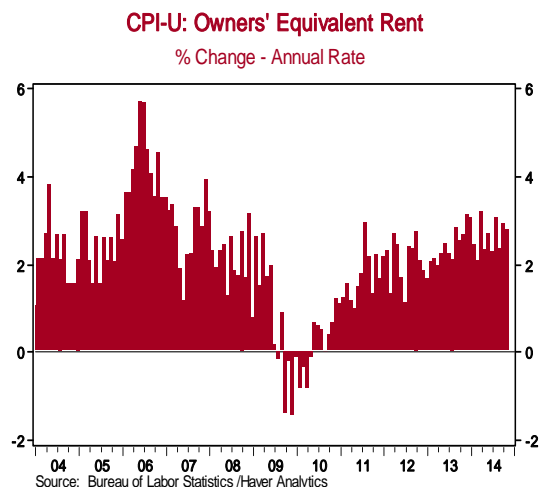
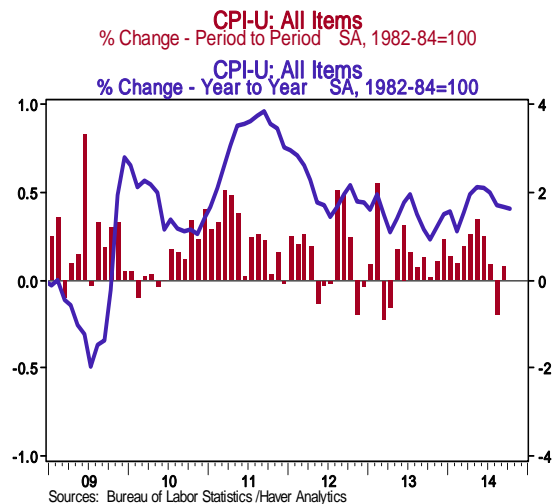


# October CPI

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- The Consumer Price Index (CPI) was unchanged in October versus the consensus expected decline of 0.1%. The CPI is up 1.7% versus a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) declined 0.1% in October, but is up 1.3% in the past year.
- Energy prices declined 1.9% in October, while food prices increased 0.1%. The “core” CPI, which excludes food and energy, rose 0.2% versus consensus expectations of 0.1%. Core prices are up 1.8% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.1% in October, and are up 0.4% in the past year. Real weekly earnings are up 0.9% in the past year.

**Implications:** Next time you see an energy engineer, remember to give them a hug. They deserve it. Energy prices fell for a fourth straight month in October and continue to mute rising prices elsewhere for consumers. Consumer prices are up a modest 1.7% in the past year and the key reasons is America’s booming energy production and, as a result, lower world oil prices. The gasoline index is down 5% in the past year and now stands at the lowest level since February 2011. Given the continued drop in oil prices in the first half of November, 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 3.1% annual rate in the past six months and up 2.9% 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 October, is up 2.7% in the past year, and will be a key source of any acceleration in inflation in the year ahead. One of the best pieces of news in today’s report was that “real” (inflation-adjusted) average hourly earnings rose 0.1% in October. These earnings are up 0.4% from a year ago and workers are also adding to their purchasing power because of more jobs and more hours worked. Plugging today’s CPI data into our models suggests the Fed’s preferred measure of inflation, the PCE deflator, was probably unchanged in October. If so, it would be up 1.4% from a year ago, still below the Fed’s target of 2%. We expect this measure to eventually hit and cross the 2% target, but given the bonanza from fracking and horizontal drilling, not until next year. In other news this morning, new claims for unemployment insurance declined 2,000 last week to 291,000. Continuing claims fell 73,000 to 2.33 million, a new low for the recovery. Plugging these figures into our employment models suggests nonfarm payrolls are growing 200,000 in November, with private payrolls up 191,000.



<b>CPI - U</b> <i>All Data Seasonally Adjusted</i>	<b>Oct-14</b>	<b>Sep-14</b>	<b>Aug-14</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>0.0%</b>	0.1%	-0.2%	-0.4%	1.2%	1.7%
<b>Ex Food &amp; Energy</b>	<b>0.2%</b>	0.1%	0.0%	1.4%	1.7%	1.8%
<b>Ex Energy</b>	<b>0.2%</b>	0.2%	0.0%	1.6%	1.9%	2.0%
<b>Energy</b>	<b>-1.9%</b>	-0.7%	-2.6%	-18.8%	-5.9%	-1.6%
<b>Food and Beverages</b>	<b>0.1%</b>	0.3%	0.3%	2.9%	3.1%	2.9%
<b>Housing</b>	<b>0.2%</b>	0.2%	0.1%	2.0%	2.3%	2.7%
<b>Owners Equivalent Rent</b>	<b>0.2%</b>	0.2%	0.2%	2.7%	2.7%	2.7%
<b>New Vehicles</b>	<b>0.2%</b>	0.0%	0.2%	1.6%	1.1%	0.6%
<b>Medical Care</b>	<b>0.2%</b>	0.2%	0.0%	1.3%	1.9%	2.1%
<b>Services (Excluding Energy Services)</b>	<b>0.3%</b>	0.2%	0.0%	2.0%	2.2%	2.5%
<b>Real Average Hourly Earnings</b>	<b>0.1%</b>	-0.1%	0.6%	2.4%	0.8%	0.4%

Source: U.S. Department of Labor