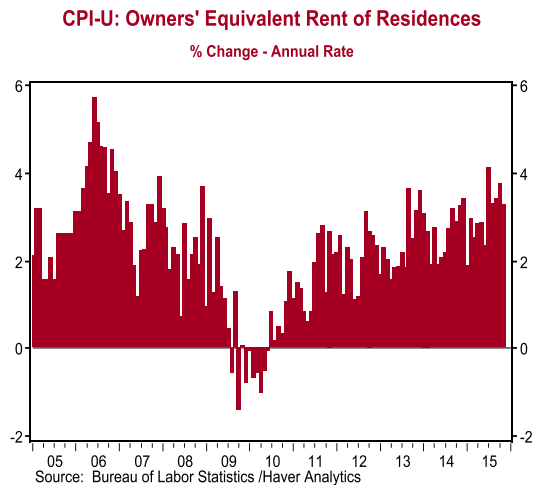
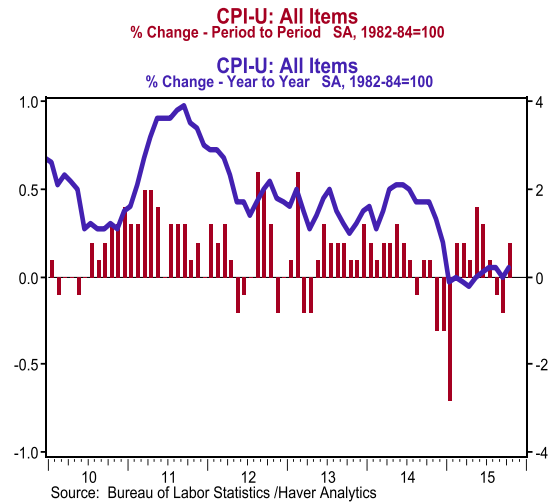


October CPI

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- The Consumer Price Index (CPI) rose 0.2% in October, matching consensus expectations. The CPI is up 0.2% from a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) rose 0.2% in October, but is down 0.7% in the past year.
- Energy prices rose 0.3% in October, while food prices increased 0.2%. The “core” CPI, which excludes food and energy, increased 0.2% in October, matching consensus expectations. Core prices are up 1.9% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.2% in October, and are up 2.4% in the past year. Real *weekly* earnings are up 2.1% in the past year.

Implications: The Fed is paying close attention to inflation indicators leading up to their December meeting, and today’s consumer prices report should add to their confidence that it’s time to hike rates. Consumer prices rose 0.2% in October, with costs for housing and medical care leading the increase. Owners’ equivalent rent, which makes up about ¼ of the CPI, rose 0.2% in October, is up 3.1% in the past year, up at a 3.3% annual rate in the past six months, and will be a key source of higher inflation in the year ahead. Energy prices rose modestly in October after large declines in August and September, but remain down 17.1% from a year ago. So while the headline CPI is up just 0.2% in the past year, prices excluding energy are up 1.9% in the last twelve months, very close to the Federal Reserve’s 2% inflation target. This suggests that as energy prices stop falling, overall inflation will move toward the Fed’s target more quickly than most anticipate. “Core” prices, which exclude both the volatile food and energy components, are also up 1.9% in the past year and has had inflation hovering consistently around 2% over the past three, six, and twelve-month periods. In other words, core price inflation has held steady near the Fed’s target for quite some time, and almost all the statistical noise has come from energy. While some scaremongers warn about deflation, others stoke fears of hyperinflation. But the truth is that neither is a threat at present. What we have is low inflation that is likely to gradually work its way upward over the next few years. On the earnings front, “real” (inflation-adjusted) average hourly earnings rose 0.2% in October, and are up 2.4% in the past year. In other words, increases in consumer spending have been driven by higher earnings, not consumers loading up on debt.



CPI - U <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Oct-15	Sep-15	Aug-15	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.2%	-0.2%	-0.1%	-0.1%	1.8%	0.2%
Ex Food & Energy	0.2%	0.2%	0.1%	2.0%	1.9%	1.9%
Ex Energy	0.2%	0.2%	0.1%	2.1%	2.0%	1.9%
Energy	0.3%	-4.7%	-2.0%	-23.1%	-1.1%	-17.1%
Food and Beverages	0.2%	0.4%	0.2%	3.1%	2.4%	1.6%
Housing	0.2%	0.3%	0.2%	2.6%	2.3%	2.1%
Owners Equivalent Rent	0.2%	0.3%	0.2%	3.0%	3.3%	3.1%
New Vehicles	-0.2%	-0.1%	0.0%	-1.1%	-0.4%	0.1%
Medical Care	0.7%	0.2%	0.0%	3.7%	2.2%	3.0%
Services (Excluding Energy Services)	0.3%	0.3%	0.1%	2.9%	2.9%	2.8%
Real Average Hourly Earnings	0.2%	0.2%	0.5%	3.5%	0.8%	2.4%

Source: U.S. Department of Labor