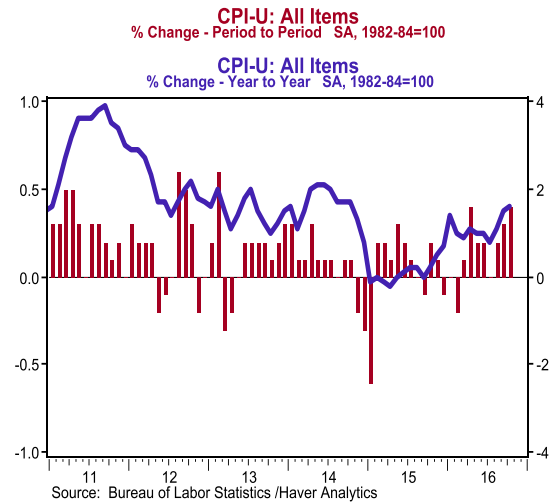


October CPI

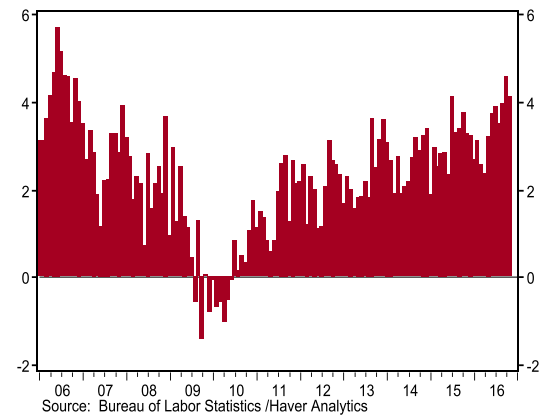
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- The Consumer Price Index (CPI) increased 0.4% in October, matching consensus expectations. The CPI is up 1.6% from a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) rose 0.4% in October and is up 1.1% in the past year.
- Energy prices rose 3.5% in October, while food prices were unchanged. The “core” CPI, which excludes food and energy, increased 0.1% in October, coming in below the consensus expected rise of 0.2%. Core prices are up 2.1% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.1% in October and are up 1.2% in the past year. Real average weekly earnings are up 0.9% in the past year.

Implications: Consumer prices surged in October, rising 0.4%, coming on the heels of healthy increases in both August and September. Although consumer prices are up only a tame 1.6% in the past year, they’re up at a 2.5% annual rate in the past six months and a 3.5% annual rate in the past three months (the fastest three-month pace since 2012). Energy prices led the index higher in October, as gasoline jumped 7%. As we saw earlier this week in retail sales as well as both import and producer prices, consumer energy prices turned positive on a year-to-year basis for the first time since mid-2014. In other words, the key headwind on inflation we have seen over the past two years is now turning into a tailwind. Conversely, food prices, unchanged in October for a fourth consecutive months., remain a slight drag on overall inflation, and are down 0.3% in the past year. Stripping out the typically volatile food and energy components, “core” consumer prices rose 0.1% in October and are up 2.1% in the past year. The October increase in “core” consumer prices was led by housing. Owners’ equivalent rent, which makes up about ¼ of the CPI, rose 0.3% in October, is up 3.4% in the past year, and will be a key source of higher inflation in the year ahead. Medical care costs took a breather in October but continue to be an area to watch, up 4.3% in the past year and showing acceleration over the past three- and six-month periods. In addition to rising inflation, “real” (inflation-adjusted) average hourly earnings also rose in October, up 0.1%, and are 1.2% higher in the past year. Along with other recent readings on inflation - and employment continuing to show health gains - today’s CPI report should remove any doubt in the Fed’s mind that a December rate hike is needed.



CPI-U: Owners' Equivalent Rent of Residences
 % Change - Annual Rate



CPI - U <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Oct-16	Sep-16	Aug-16	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.4%	0.3%	0.2%	3.5%	2.5%	1.6%
Ex Food & Energy	0.1%	0.1%	0.3%	2.1%	2.0%	2.1%
Ex Energy	0.1%	0.1%	0.2%	1.8%	1.6%	1.8%
Energy	3.5%	2.9%	0.0%	28.7%	15.6%	0.1%
Food and Beverages	0.0%	0.0%	0.0%	0.1%	-0.5%	-0.3%
Housing	0.4%	0.4%	0.3%	4.2%	3.7%	2.9%
Owners Equivalent Rent	0.3%	0.4%	0.3%	3.8%	3.9%	3.4%
New Vehicles	0.2%	-0.1%	0.0%	0.7%	0.3%	0.3%
Medical Care	0.0%	0.2%	1.0%	4.9%	4.8%	4.3%
Services (Excluding Energy Services)	0.2%	0.2%	0.3%	2.7%	2.9%	3.0%
Real Average Hourly Earnings	0.1%	0.0%	-0.1%	0.0%	0.6%	1.2%

Source: U.S. Department of Labor