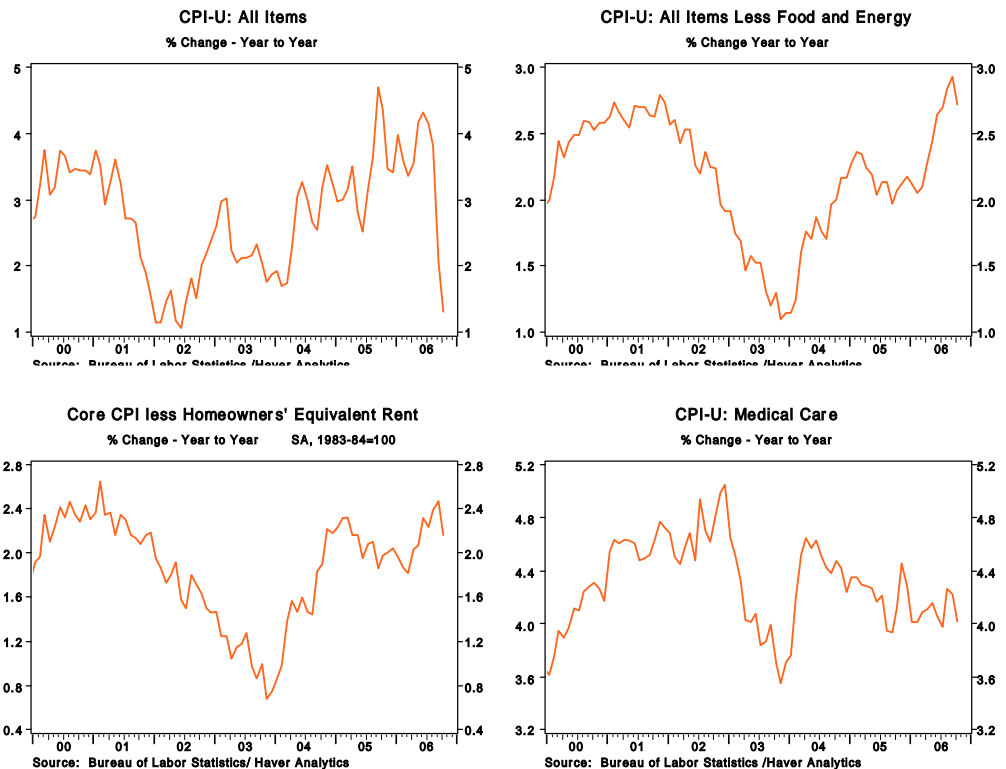


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OCTOBER CPI

- The Consumer Price Index (CPI) declined 0.5% in October, its second consecutive decline of that magnitude. The year-over-year rate of change in the CPI has now fallen to 1.3%.
- Energy prices plummeted 7.0% in October after a 7.2% decline in September. Food and beverage prices increased 0.3% last month. Excluding food and energy, the “core” CPI was up just 0.1% in October, a better reading than the consensus expected. The “core” CPI is up an annualized 2.3% in the past three months and 2.7% in the past year.

Implications: Starting with import and export prices, October inflation data has been very tame. In fact, over the past three months, the overall CPI has contracted at a 2.9% annual rate – a clear function of rapidly declining energy prices, which are down 43.8% at an annual rate in the past three months. The CPI, excluding energy, rose a surprisingly small 0.1% in October and is up 2.9% at an annual rate in the past six months. Apparel prices fell 0.7% in October (after sharp increases in Sept. and Aug.), lodging away from home (hotel) prices fell 0.5%, recreation costs were unchanged, and new vehicle prices fell 0.1%. These relatively widespread declines are not as easy to dismiss as they were in the producer price data that was released on Tuesday. As a result, the Fed will likely stay on pause at its next meeting on December 12th. Nonetheless, services prices (excluding energy services) were up 0.3% in October, after a similar gain in September, and are up 3.5% at an annual rate in the past three months. Globalization and productivity affect manufactured and imported goods prices more than services prices, which are rooted in human capital costs. With services prices still elevated, the “all clear” on inflation has yet to sound.



CPI - U <i>all data seasonally adjusted</i>	Oct-06	Sep-06	Aug-06	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr over Yr % Ch.
Consumer Price Index	-0.5%	-0.5%	0.2%	-2.9%	0.7%	1.3%
X Food & Energy	0.1%	0.2%	0.2%	2.3%	2.8%	2.7%
X Energy	0.1%	0.2%	0.2%	2.6%	2.9%	2.7%
Energ	-7.0%	-7.2%	0.3%	-43.8%	-18.2%	-11.3%
Food and Beverage	0.3%	0.4%	0.3%	3.5%	3.1%	2.6%
Housing	0.0%	0.3%	0.2%	2.2%	3.0%	3.0%
- Owners Equivalent Rent	0.4%	0.3%	0.3%	3.9%	4.7%	4.1%
Apparel	-0.7%	0.6%	0.9%	3.4%	-0.3%	0.5%
Transportation	-3.1%	-4.1%	0.2%	-24.9%	-8.1%	-5.0%
- New Vehicles	-0.1%	-0.1%	-0.1%	-1.4%	-1.2%	-0.2%
Medical Care	0.3%	0.3%	0.4%	4.2%	3.7%	4.0%
Recreation	0.0%	0.0%	-0.1%	-0.4%	0.9%	1.2%
Education & Communication	0.2%	0.1%	0.3%	2.4%	2.4%	3.0%
Commodities	-1.4%	-1.7%	0.2%	-11.0%	-3.0%	-1.6%
Commodities x Food & Beverage	-2.3%	-2.9%	0.2%	-18.3%	-6.3%	-4.0%
Services	0.1%	0.4%	0.3%	3.0%	3.4%	3.4%

Source: U.S. Department of Labor