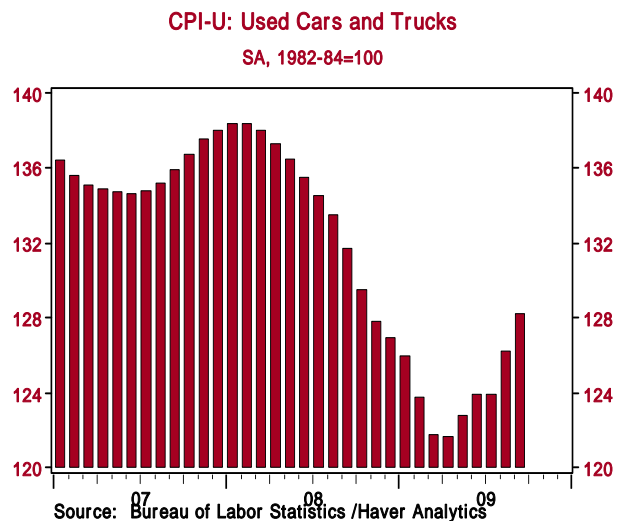
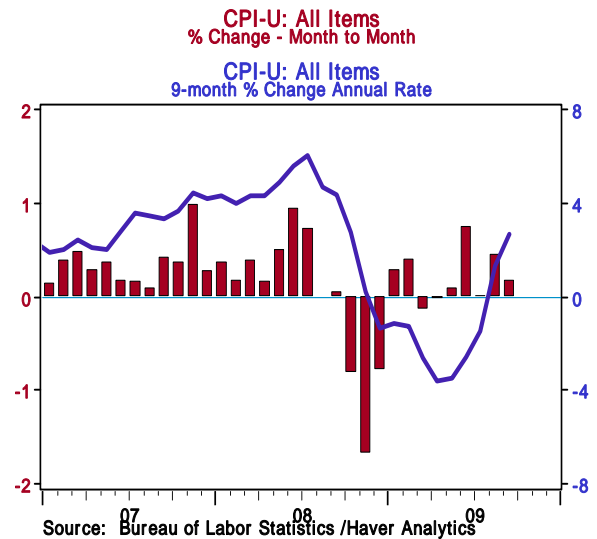


SEPTEMBER CPI

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- The Consumer Price Index (CPI) was up 0.2% in September, matching consensus expectations. The CPI is down 1.3% versus a year ago but is up at a 4.2% annual rate in the past four months.
- Energy prices were up 0.6% in September after a 4.6% jump in August. Food prices were down 0.1% in September.
- Excluding food and energy prices, the “core” CPI was up 0.2% (0.16 unrounded) in September and is up at a 2.0% annual rate this year.
- Real average hourly earnings – the cash earnings of production workers, adjusted for inflation – were down 0.1% in September but are up 4.4% versus a year ago.

Implications: Consumer prices increased 0.2% in September, as the consensus expected. Energy prices increased 0.6% in September after increasing 4.6% in August. Given the increase in commodity prices so far this month, we expect to see a large gain in overall energy prices in October, and we expect to see an acceleration in overall inflation. Consumer prices are down 1.3% versus a year ago, but this number continues to be misleading. While prices are down since a year ago, they have consistently rebounded so far this year, rising at a 2.7% annual rate since January as monetary velocity returns. In other news this morning, the Empire State Manufacturing Index, a measure of manufacturing in New York, rose to 34.6, crushing consensus expectations and rising to its highest level in over five years. Both the new orders and shipments sub-indexes rose tremendously, the latter rising to 35.1 from 5.3 in September. Clearly manufacturing, like the rest of the economy, is recovering rapidly. On top of this, the number of employees and average workweek sub-indexes rose substantially, indicating the labor market, even in the manufacturing sector, is turning around. To go along with this, the Labor Department reported this morning that initial claims for unemployment insurance fell to 514,000 last week, lower than the consensus expected and the lowest level since the beginning of the year. Meanwhile continuing claims for regular state benefits fell 75,000 to 5.99 million.



CPI - U <i>All Data Seasonally Adjusted</i>	Sep-09	Aug-09	Jul-09	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.2%	0.4%	0.0%	2.5%	2.9%	-1.3%
<i>Ex Food & Energy</i>	0.2%	0.1%	0.1%	1.3%	1.9%	1.5%
<i>Ex Energy</i>	0.1%	0.1%	0.0%	0.9%	1.4%	1.2%
Energy	0.6%	4.6%	-0.4%	21.1%	21.6%	-21.6%
Food and Beverages	-0.1%	0.1%	-0.2%	-0.8%	-1.0%	0.0%
Housing	0.0%	0.1%	-0.2%	-0.4%	-0.5%	-0.5%
<i>Owners Equivalent Rent</i>	-0.1%	0.1%	0.0%	-0.4%	0.5%	1.3%
New Vehicles	0.4%	-1.3%	0.5%	-1.8%	2.3%	1.6%
Medical Care	0.4%	0.3%	0.2%	3.6%	3.6%	3.5%
Services (Excluding Energy Services)	0.1%	0.2%	0.0%	1.4%	1.6%	1.5%
Real Average Hourly Earnings	-0.1%	-0.1%	0.2%	0.0%	-1.6%	4.4%

Source: U.S. Department of Labor