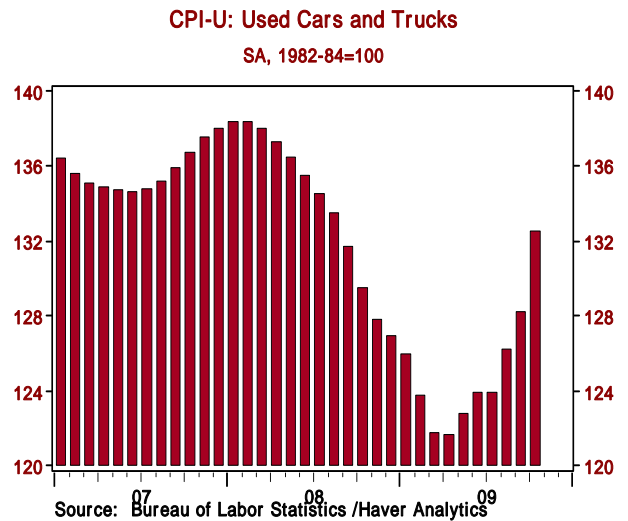
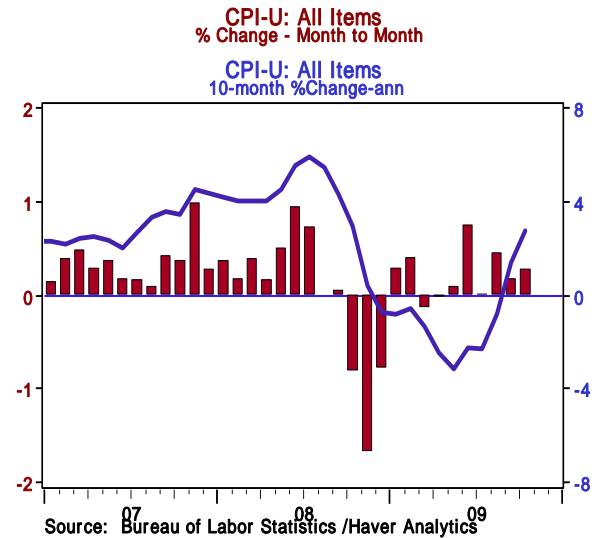


OCTOBER CPI

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- The Consumer Price Index (CPI) was up 0.3% in October, versus a consensus expected gain of 0.2%. The CPI is down 0.2% versus a year ago, but is up at a 3.5% annual rate in the past six months.
- “Cash” inflation (which excludes the government’s estimate of what a homeowner would charge himself for rent) increased 0.4% in October and is up at a 4.6% annual rate in the past six months.
- Energy prices were up 1.5% in October, while food prices were up 0.1%.
- Excluding food and energy, the “core” CPI was up 0.2% in October and is up at a 1.7% annual rate in the past six months.
- Real average hourly earnings – the cash earnings of production workers, adjusted for inflation – were down 0.1% in October.

Implications: Consumer prices increased 0.3% in October, which is higher than the consensus expected. More importantly, “cash” inflation, which excludes homeowners’ equivalent rent, increased 0.4% in October, is up at a 4.6% annual rate in the past six months, and is up at a 3.3% rate since the beginning of the year. We are focusing on cash inflation because about 24% of the CPI consists of the government’s estimate of what homeowners should be paying themselves in rent, even though no money actually changes hands. By contrast, those who deny inflation is a problem are focusing on “core” inflation, which excludes food and energy even though we all have to buy those items. Yet even the core CPI increased 0.2% in October, which was more than expected. The increase in the core CPI was primarily driven by motor vehicles. In particular, note that used car prices increased 3.4% in October and are up at a 30.8% annual rate in the past three months. Ironically, and unfortunately, it appears that by destroying older vehicles, the “cash for clunkers” program has helped make auto ownership more difficult for many among the poor and middle class. Overall consumer prices are still down 0.2% versus last October but that’s due to the huge price declines during the post-Lehman panic. In the next few months, year-ago comparisons will be heading significantly higher.



CPI - U <i>All Data Seasonally Adjusted</i>	Oct-09	Sep-09	Aug-09	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.3%	0.2%	0.4%	3.6%	3.5%	-0.2%
<i>Ex Food & Energy</i>	0.2%	0.2%	0.1%	1.7%	1.7%	1.7%
<i>Ex Energy</i>	0.2%	0.1%	0.1%	1.4%	1.3%	1.4%
Energy	1.5%	0.6%	4.6%	30.1%	31.3%	-14.0%
Food and Beverages	0.1%	-0.1%	0.1%	0.4%	-0.5%	-0.3%
Housing	0.1%	0.0%	0.1%	0.7%	-0.2%	-0.4%
Owners Equivalent Rent	0.0%	-0.1%	0.1%	-0.3%	0.2%	1.2%
New Vehicles	1.6%	0.4%	-1.3%	2.8%	4.8%	3.8%
Medical Care	0.2%	0.4%	0.3%	3.6%	3.2%	3.5%
Services (Excluding Energy Services)	0.1%	0.1%	0.2%	1.6%	1.5%	1.5%
Real Average Hourly Earnings	-0.1%	-0.1%	-0.1%	-0.9%	-1.8%	2.9%

Source: U.S. Department of Labor