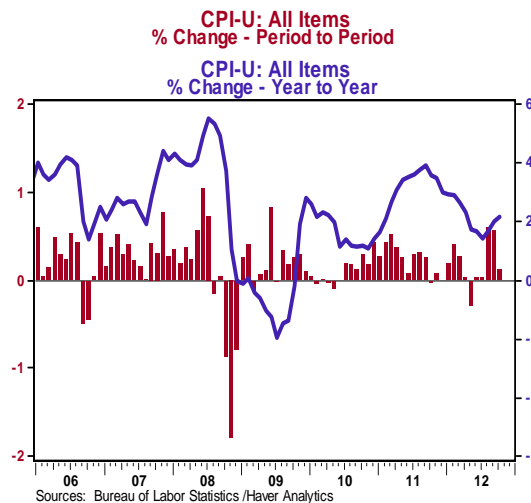


October CPI

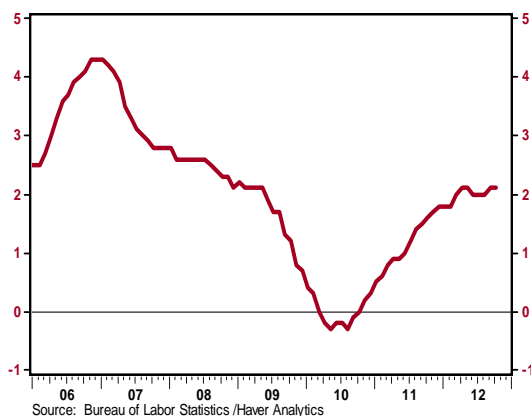
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- The Consumer Price Index (CPI) was up 0.1% in October, exactly as the consensus expected. The CPI is up 2.2% versus a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) also rose 0.1% in October and is up 2.2% in the past year.
- Energy prices slipped 0.2% in October while food prices rose 0.2%. The “core” CPI, which excludes food and energy, was up 0.2% in October and is up 2.0% versus a year ago. The consensus expected gain of 0.1% in October.
- Real average hourly earnings – the cash earnings of all employees, adjusted for inflation – were down 0.2% in October and are down 0.7% in the past year. Real *weekly* earnings are down 0.6% in the past year.

Implications: Forget about consumer prices for a moment. The big economic news this morning was in the labor market, where initial jobless claims jumped 78,000 last week to 439,000 and continuing claims soared 171,000 to 3.33 million. If these numbers came out of nowhere, it would mean very bad news for the economy. Instead, the spike in claims is due to Hurricane Sandy. Based on the aftermath of Hurricane Katrina, expect claims to remain elevated for one more week and then move back down to the “pre-Sandy” range over the following four to six weeks. However, Sandy will likely affect the payroll survey for November, where our very early estimate is zero gain for the month. On the inflation front, consumer prices were up only 0.1% in October, as the consensus expected. However, the unrounded figure was 0.146%, so it was within a hair of being reported as 0.2%. “Core” prices, which exclude food and energy, were up 0.2%. The overall CPI is up 2.2% in the past year while the core is up 2%. Neither figure sets off alarm bells. But both are hovering right near the Federal Reserve’s target of 2% and yet the stance of monetary policy is still loose, suggesting inflation will move upward over the foreseeable future. Look for housing, which makes up about 30% of the CPI, to be a large contributor to higher inflation in the next few years. It’s important to recognize that inflation getting above the Fed’s stated objective will not change the Fed’s monetary policy anytime soon. The Fed is focused on the labor market and is likely to let inflation exceed its long-term target for a prolonged period of time. In other news this morning, the Empire State index, which measures manufacturing sentiment in New York, increased to -5.2 in November from -6.2 in October. The Philadelphia Fed index, another measure of regional manufacturing sentiment, declined to -10.7 in November from +5.7 in October. One explanation of the difference could be Sandy’s proximity to Philadelphia as opposed to much of New York’s manufacturing being upstate and largely unaffected by the storm.



CPI-U: Owners' Equivalent Rent of Residences
 Y/Y %Chg



CPI - U <i>All Data Seasonally Adjusted</i>	Oct-12	Sep-12	Aug-12	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.1%	0.6%	0.6%	5.4%	2.3%	2.2%
Ex Food & Energy	0.2%	0.1%	0.1%	1.5%	1.8%	2.0%
Ex Energy	0.2%	0.1%	0.1%	1.6%	1.7%	1.9%
Energy	-0.2%	4.5%	5.6%	46.6%	7.0%	4.0%
Food and Beverages	0.2%	0.1%	0.2%	1.9%	1.5%	1.7%
Housing	0.2%	0.3%	0.3%	3.1%	1.7%	1.6%
Owners Equivalent Rent	0.2%	0.2%	0.3%	2.8%	2.1%	2.1%
New Vehicles	-0.1%	-0.1%	0.2%	-0.5%	0.3%	1.0%
Medical Care	0.0%	0.3%	0.2%	1.9%	3.7%	3.7%
Services (Excluding Energy Services)	0.3%	0.3%	0.1%	2.7%	2.4%	2.5%
Real Average Hourly Earnings	-0.2%	-0.3%	-0.6%	-4.2%	-0.8%	-0.7%

Source: U.S. Department of Labor