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# September CPI

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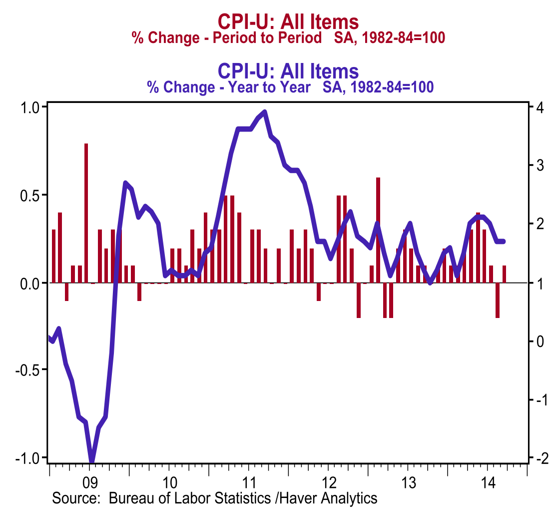
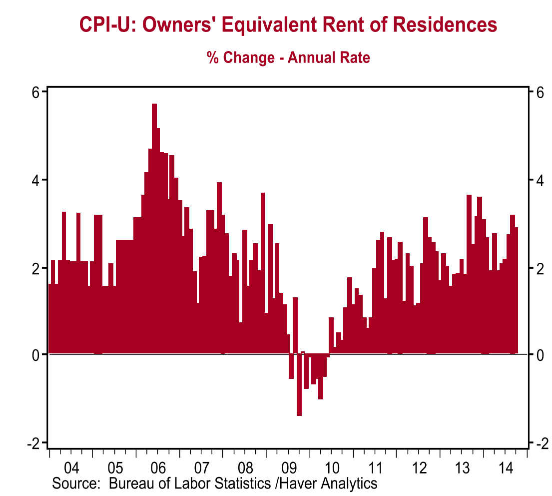
- The Consumer Price Index (CPI) increased 0.1% in September versus consensus expectations for no change. The CPI is up 1.7% versus a year ago.
- "Cash" inflation (which excludes the government's estimate of what homeowners would charge themselves for rent) was unchanged in September, but is up 1.4% in the past year.
- Food prices increased 0.3% in September, while energy prices declined 0.7%. The "core" CPI, which excludes food and energy, rose 0.1%, matching consensus expectations. Core prices are up 1.7% versus a year ago.
- Real average hourly earnings – the cash earnings of all employees, adjusted for inflation – declined 0.2% in September, but are up 0.3% in the past year. Real *weekly* earnings are up 0.6% in the past year.




**Implications:** Consumer prices increased a modest 0.1% in September as the Fed looks to stay on track to finish quantitative easing at the end of next week. Consumer prices are up only 1.7% in the past year and one of the key reasons is America's booming energy production and, as a result, lower world oil prices. Energy prices declined for a third consecutive month in September and are down 0.6% from a year ago. Given the sharp drop in oil prices in the first half of October, look for more of the same in next month's report. However, there are sectors where inflation is higher. Food and beverage prices are up at a 3.7% annual rate in the past three months and up 2.9% in the past year. So if you only use the supermarket to gauge inflation, we can understand thinking the headline reports are too low, that "true" inflation is higher. In addition, housing costs are going up. Owners' equivalent rent, which makes up about ¼ of the overall CPI, rose 0.2% in September, is up 2.7% in the past year, and will be a key source of any acceleration in inflation in the year ahead. The worst news in today's report was that "real" (inflation-adjusted) average hourly earnings declined 0.2% in September. But these earnings are still up 0.3% from a year ago and workers are also adding to their purchasing power because of more jobs and more hours worked. Plugging today's CPI data into our models suggests the Fed's preferred measure of inflation, the PCE deflator, probably rose 0.1% in September. If so, it would be up 1.5% from a year ago, still below the Fed's target of 2%. We expect this measure to eventually hit and cross the 2% target, but given the bonanza from fracking and horizontal drilling, not until next year.

| CPI - U<br>*All Data Seasonally Adjusted* | Sep-14 | Aug-14 | Jul-14 | 3-mo % Ch. annualized | 6-mo % Ch. annualized | Yr to Yr % Change |
|---|---|---|---|---|---|---|
| *Consumer Price Index* | **0.1%** | -0.2% | 0.1% | -0.1% | 1.7% | 1.7% |
| *Ex Food & Energy* | **0.1%** | 0.0% | 0.1% | 1.0% | 1.8% | 1.7% |
| *Ex Energy* | **0.2%** | 0.0% | 0.1% | 1.4% | 2.1% | 1.9% |
| *Energy* | **-0.7%** | -2.6% | -0.3% | -13.6% | -1.7% | -0.6% |
| *Food and Beverages* | **0.3%** | 0.3% | 0.3% | 3.7% | 3.5% | 2.9% |
| *Housing* | **0.2%** | 0.1% | 0.2% | 1.9% | 1.7% | 2.6% |
| *Owners Equivalent Rent* | **0.2%** | 0.2% | 0.3% | 2.8% | 2.6% | 2.7% |
| *New Vehicles* | **0.0%** | 0.2% | 0.3% | 2.1% | 1.4% | 0.3% |
| *Medical Care* | **0.2%** | 0.0% | 0.2% | 1.3% | 2.2% | 2.0% |
| *Services (Excluding Energy Services)* | **0.2%** | 0.0% | 0.1% | 1.4% | 2.3% | 2.4% |
| *Real Average Hourly Earnings* | **-0.2%** | 0.6% | -0.1% | 1.2% | 0.0% | 0.3% |

*Source: U.S. Department of Labor*