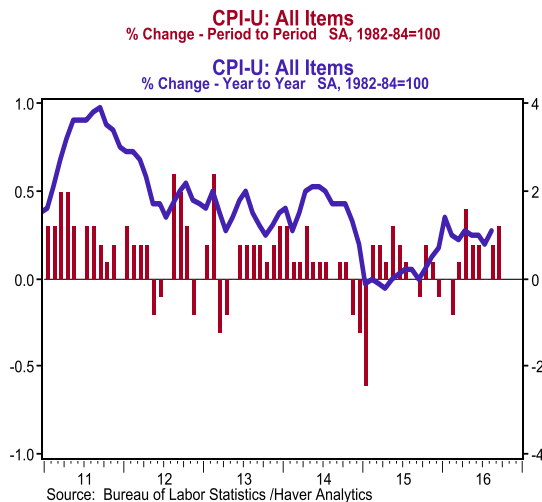


September CPI

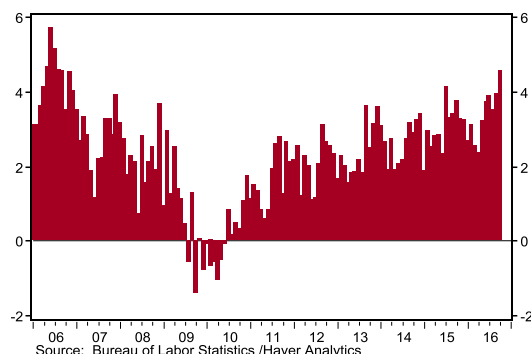
Brian S. Wesbury – Chief Economist
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- The Consumer Price Index (CPI) increased 0.3% in September, matching consensus expectations. The CPI is up 1.5% from a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) rose 0.3% in September and is up 0.9% in the past year.
- Energy prices rose 2.9% in September, while food prices were unchanged. The “core” CPI, which excludes food and energy, increased 0.1% in September, coming in below the consensus expected rise of 0.2%. Core prices are up 2.2% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – declined 0.1% in September but are up 1.0% in the past year. Real average weekly earnings are up 0.8% in the past year.

Implications: This is why the Fed is going to raise rates in December and should have already. Consumer prices rose 0.3% in September, the largest monthly increase in five months, and are now up 1.5% from a year ago. That is a significant move higher compared to the reading of no change in prices for the twelve months ending September of 2015. Energy prices led the index higher in September, as gasoline prices jumped 5.8%. While energy prices remain volatile from month to month, the recent trend has been toward rising prices and the yearly change is likely to turn back positive in the coming months. This will put continued upward pressure on the headline index which is up at a 1.8% annual rate in the past three months. While food prices have remained unchanged in the past three months, they have also been a slight drag on inflation in the past year. Stripping out the volatile food and energy components, the “core” consumer prices rose 0.1% in September and are up 2.2% in the past year. The September increase in “core” consumer prices was led by housing. Owners’ equivalent rent, which makes up about ¼ of the CPI, rose 0.4% in September, is up 3.4% in the past year, and will be a key source of higher inflation in the year ahead. Medical care costs rose 0.2% in September, the smallest monthly increase since March, but are up 4.9% in the past year and have shown acceleration over the past three and six-month periods. The worst piece of news from today’s report was that “real” (inflation-adjusted) average hourly earnings declined 0.1% in September. But real average wages per hour are still up 1.0% in the past year. At the end of the day - given a consistent pace of “core” inflation above 2%, continued employment gains, and an acceleration in the headline consumer price index – the Fed has the data they need to raise rates in November, but expect the Fed to find a reason to avoid a rate hike the week before the election and to kick the rate-hike can down the road, probably to December.



CPI-U: Owners' Equivalent Rent of Residences
 % Change - Annual Rate



CPI - U <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Sep-16	Aug-16	Jul-16	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.3%	0.2%	0.0%	1.8%	2.6%	1.5%
Ex Food & Energy	0.1%	0.3%	0.1%	1.9%	2.1%	2.2%
Ex Energy	0.1%	0.2%	0.1%	1.6%	1.7%	1.8%
Energy	2.9%	0.0%	-1.6%	5.3%	15.6%	-2.9%
Food and Beverages	0.0%	0.0%	0.0%	0.1%	-0.1%	-0.2%
Housing	0.4%	0.3%	0.3%	3.8%	3.4%	2.7%
Owners Equivalent Rent	0.4%	0.3%	0.3%	3.8%	3.9%	3.4%
New Vehicles	-0.1%	0.0%	0.2%	0.7%	-0.9%	0.0%
Medical Care	0.2%	1.0%	0.5%	7.1%	5.5%	4.9%
Services (Excluding Energy Services)	0.2%	0.3%	0.2%	2.6%	3.2%	3.2%
Real Average Hourly Earnings	-0.1%	-0.1%	0.4%	0.8%	0.0%	1.0%

Source: U.S. Department of Labor