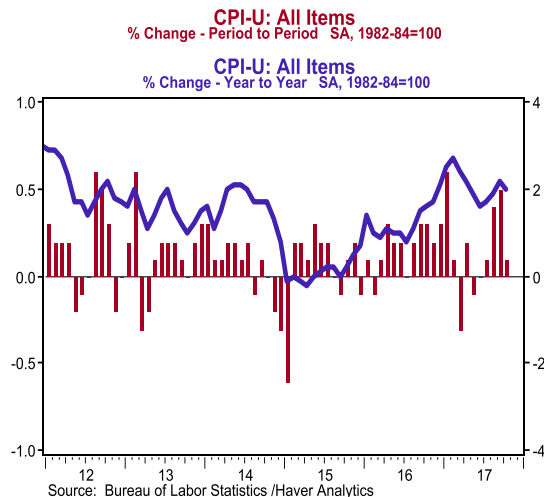


# October CPI

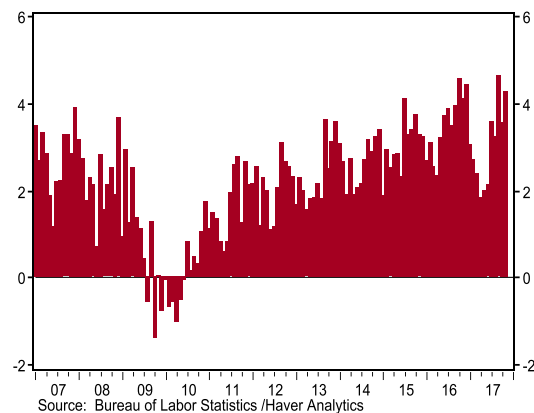
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- The Consumer Price Index (CPI) rose 0.1% in October, matching consensus expectations. The CPI is up 2.0% from a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) was unchanged in October but is up 1.7% in the past year.
- Energy prices declined 1.0% in October, while food prices were unchanged. The “core” CPI, which excludes food and energy, increased 0.2% in October, matching consensus. Core prices are up 1.8% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – declined 0.1% in October but are up 0.4% in the past year. Real average weekly earnings are also up 0.4% in the past year.

**Implications:** Consumer prices continued to rise in October and are up at the fastest three-month pace going back to late 2012. Hurricanes Harvey and Irma were key culprits pushing prices higher in August and September, but even as storm impacts fade, consumer prices ticked 0.1% higher in October as the usual suspects led the way. Housing costs rose 0.3% in October and are up 2.8% in the past year, while prices for services also rose 0.3% in October and are up 2.7% over the past twelve months. As a result, consumer prices as a whole are up 2.0% in the past year. And with [yesterday’s report on producer prices](#) showing rising inflation in the pipeline, we expect consumer prices will continue to average at or above the 2.0% year-to-year pace in the months ahead. Energy prices declined 1.0% in October following significant hurricane-related increases over the prior two months, while food prices were unchanged. “Core” consumer prices, which strip out the food and energy components, rose 0.2% in October and are up 1.8% in the past year. That represents the fastest twelve-month increase in “core” prices going back to April. Taking today’s data and the trend into consideration shows why the Fed has confidence that the inflation picture is firming around their 2% target and justifies a December rate hike as well as the continuation of policy normalization heading into 2018. Markets are currently pricing in a roughly 92% chance for a hike in December, with just one to two hikes priced in for 2018. With Jerome Powell taking over the reins from Chairwoman Yellen – and tax and regulatory reform looking likely out of Washington – we think three to four hikes looks more likely next year. The most disappointing news in today’s report is that real average hourly earnings declined 0.1% in October. However, these earnings are up 0.4% over the past year and data from the Bureau of Labor Statistics employment report show overall worker earnings (which takes into account both wage gains and increased hours worked) are rising at around a 4% annual rate. Along with healthy household balance sheets, consumers have room to increase spending.



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



<b>CPI - U</b> <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	<b>Oct-17</b>	<b>Sep-17</b>	<b>Aug-17</b>	<b>3-mo % Ch.</b> <b>annualized</b>	<b>6-mo % Ch.</b> <b>annualized</b>	<b>Yr to Yr</b> <b>% Change</b>
<b>Consumer Price Index</b>	<b>0.1%</b>	0.5%	0.4%	4.3%	2.0%	2.0%
<b>Ex Food &amp; Energy</b>	<b>0.2%</b>	0.1%	0.2%	2.4%	1.8%	1.8%
<b>Ex Energy</b>	<b>0.2%</b>	0.1%	0.2%	2.2%	1.7%	1.7%
<b>Energy</b>	<b>-1.0%</b>	6.1%	2.8%	36.0%	6.7%	6.4%
<b>Food</b>	<b>0.0%</b>	0.1%	0.1%	0.8%	1.0%	1.3%
<b>Housing</b>	<b>0.3%</b>	0.2%	0.4%	3.6%	2.7%	2.8%
<b>Owners Equivalent Rent</b>	<b>0.3%</b>	0.2%	0.3%	3.7%	3.4%	3.2%
<b>New Vehicles</b>	<b>-0.2%</b>	-0.4%	0.0%	-2.5%	-3.2%	-1.4%
<b>Medical Care</b>	<b>0.3%</b>	-0.1%	0.1%	1.3%	2.2%	1.7%
<b>Services (Excluding Energy Services)</b>	<b>0.3%</b>	0.2%	0.4%	3.6%	2.9%	2.7%
<b>Real Average Hourly Earnings</b>	<b>-0.1%</b>	-0.1%	-0.3%	-1.8%	0.7%	0.4%

Source: U.S. Department of Labor