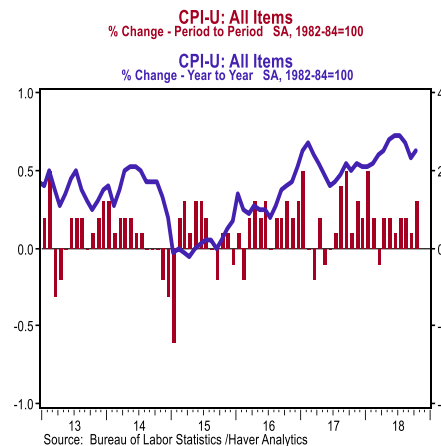


October CPI

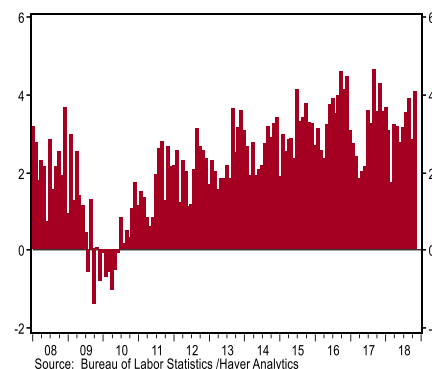
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- The Consumer Price Index (CPI) rose 0.3% in October, matching consensus expectations. The CPI is up 2.5% from a year ago.
- Energy prices rose 2.4% in October, while food declined 0.1%. The “core” CPI, which excludes food and energy, increased 0.2% in October, also matching consensus expectations. Core prices are up 2.1% 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 0.7% in the past year. Real average weekly earnings are up 0.9% in the past year.

Implications: Consumer prices rose 0.3% in October, the fastest monthly increase since January and a pickup from September's modest increase of 0.1%. This is a textbook example of volatility in monthly data. Was there any major change between September and October that represents a shift in the pace of inflation? No. Some of the change is due to seasonal factors appearing to have pulled down September data and then returning to more “normal” levels in October. That is why we focus on the trend, which shows inflation continuing to run steadily above the Fed’s 2% inflation target. In the past year, consumer prices are up 2.5%, exactly the same as the annualized pace over the past three months. This represents a pickup from the 2.0% increase for the twelve-months ending October 2017, 1.6% for the twelve-months ending October 2016, and 0.2% for the twelve-months ending October 2015. So, after running stubbornly below the Fed’s inflation target for the first five years of the recovery, the question has shifted from “will the Fed wait on raising rates?” to “can the Fed wait on raising rates?” No, this isn’t runaway inflation, but with the federal funds rate well below the pace of nominal GDP growth, the odds of higher inflation – paired with a tight labor market and widespread strength in economic data - should be enough to keep the Fed on track for slow-but steady hikes through at least the end of 2019 (we expect one more rate hike this year, and four next year). Looking at the details of the October report shows energy prices led the rise, up 2.4% on the back of higher prices for gasoline, fuel oils, and electricity. Energy prices are up 8.9% in the past year. Food prices, meanwhile, declined 0.1% in October but are up 1.2% in the past year. “Core” consumer prices – which exclude both food and energy costs – rose 0.2% in October and are up 2.1% in the past year. A deeper dig into today’s report shows the 0.2% increase in core prices was once again led by owners’ equivalent rent (the amount an owner would need to pay in order to rent their home on the open market). Meanwhile used car and truck prices rebounded 2.6% in October after September tied for the steepest decline for any month since 1969. The worst news in today’s report was that real average hourly earnings declined 0.1% in October. These wages are up just 0.7% in the past year but are heading higher, with wages up 1.1% at an annual rate over both the past three and six-month periods. And importantly, these earnings do not include irregular bonuses – like the ones paid by companies after the tax cut or to attract new hires – or the value of benefits. It’s an imperfect measure (to say the least), but we still expect a visible pickup in wage pressure in the year ahead. The labor market remains strong and companies continue to report that finding available qualified labor remains a top headwind to even faster growth. Put it all together, and today’s report shows an economy continuing to strengthen, brushing off the supposed concerns of trade tariffs or election rumblings. Focus on the data, not the media narratives.



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



CPI - U	Oct-18	Sep-18	Aug-18	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
<i>All Data Seasonally Adjusted Except for Yr to Yr</i>						
Consumer Price Index	0.3%	0.1%	0.2%	2.5%	2.3%	2.5%
Ex Food & Energy	0.2%	0.1%	0.1%	1.6%	2.0%	2.1%
Ex Energy	0.2%	0.1%	0.1%	1.4%	1.8%	2.0%
Energy	2.4%	-0.5%	1.9%	16.2%	8.0%	8.9%
Food	-0.1%	0.0%	0.1%	0.2%	0.8%	1.2%
Housing	0.3%	0.1%	0.3%	2.9%	2.4%	2.8%
Owners Equivalent Rent	0.3%	0.2%	0.3%	3.0%	3.1%	3.3%
New Vehicles	-0.2%	-0.1%	0.0%	-1.3%	1.5%	0.5%
Medical Care	0.2%	0.2%	-0.2%	0.4%	1.1%	1.7%
Services (Excluding Energy Services)	0.2%	0.2%	0.2%	2.5%	2.8%	2.9%
Real Average Hourly Earnings	-0.1%	0.2%	0.2%	1.1%	1.1%	0.7%

Source: U.S. Department of Labor