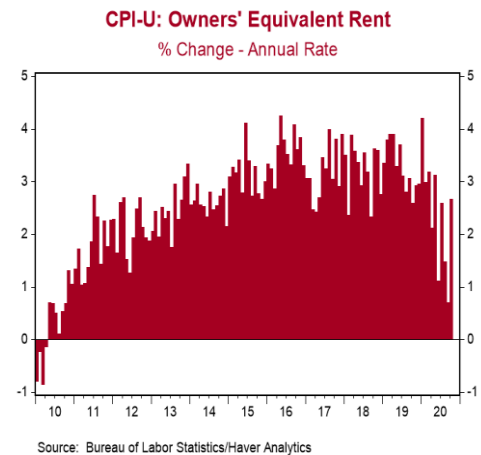
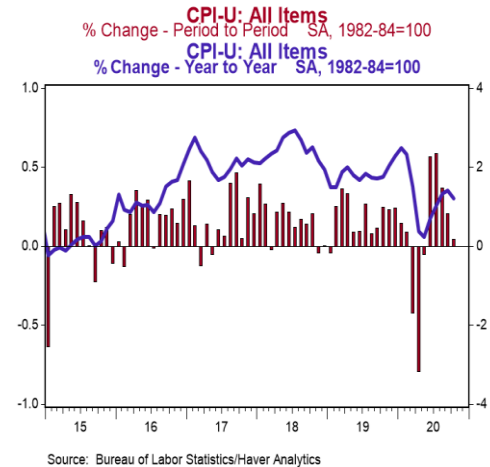


October CPI

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- The Consumer Price Index (CPI) was unchanged in October, coming in below the consensus expected increase of 0.1%. The CPI is up 1.2% from a year ago.
- Food prices rose 0.2% in October, while energy prices increased 0.1%. The “core” CPI, which excludes food and energy, was unchanged in October, coming in below the consensus expected increase of 0.2%. Core prices are up 1.6% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.1% in October and are up 3.2% in the past year. Real average weekly earnings are up 4.4% in the past year.

Implications: Inflation took a breather in October, following a four-month period that saw the fastest increase in the CPI since 2008. Even with the October pause, consumer prices are up at a 3.5% annualized rate over the past six months, comfortably above the Federal Reserve’s inflation target of around 2%. However, don’t expect this to change the Fed’s plan to keep short-term rates near zero for the foreseeable future. Given the drop in prices earlier this year during the worst of the pandemic and related shutdowns, consumer prices are up a tepid 1.2% versus a year ago. Still, the recent burst of inflation hints at the impact the massive 24.1% increase in the M2 money supply can have as supply chains continue to recover. The typically volatile food and energy categories rose 0.2% and 0.1%, respectively, in October. Strip out the impacts from the food and energy sectors, and “core” prices were unchanged in October. A dig into the details shows that it was a story of offsetting factors, as rising costs for housing (+0.1%) and new cars (+0.4%) were offset by lower prices for medical care (-0.4%), car insurance (-2.3%), and apparel (-1.2%). Over the past year, core prices are up 1.6%. We expect inflation will continue to rise in the months ahead toward the 2% annual pace of inflation that was in effect before the Coronavirus wreaked havoc on global economies. However, underlying fundamentals point to a higher risk of rising inflation than after the 2008 recession. The Coronavirus pandemic is the first recession on record where personal income has increased, due to government stimulus checks and boosted unemployment insurance payments that replaced more than 100% of lost wages for many workers. Meanwhile, measures like industrial production and the unemployment rate demonstrate that the actual production of goods and services remains depressed relative to pre-pandemic levels. That mismatch between supply and demand will eventually mean too many dollars chasing too few goods, especially if further stimulus measures continue to lean on the same policies. That said, it’s clear that the economic recovery is under way, the worst economic quarter in the post-World War II era is behind us, and the question now is how quickly we can get back to “normal.” In employment news this morning, initial jobless claims fell 48,000 last week to 709,000. Meanwhile, continuing claims for regular benefits fell 436,000 to 6,786 million. While it’s still early, these numbers point to continued job gains in November.



CPI - U <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Oct-20	Sep-20	Aug-20	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.0%	0.2%	0.4%	2.5%	3.5%	1.2%
Ex Food & Energy	0.0%	0.2%	0.4%	2.4%	2.8%	1.6%
Ex Energy	0.0%	0.2%	0.3%	2.2%	2.7%	2.0%
Energy	0.1%	0.8%	0.9%	7.5%	16.1%	-9.2%
Food	0.2%	0.0%	0.1%	1.1%	2.4%	3.9%
Housing	0.1%	0.2%	0.2%	2.0%	2.2%	1.9%
Owners Equivalent Rent	0.2%	0.1%	0.1%	1.6%	1.9%	2.5%
New Vehicles	0.4%	0.3%	0.0%	3.1%	3.9%	1.5%
Medical Care	-0.4%	0.0%	0.1%	-1.5%	1.9%	2.9%
Services (Excluding Energy Services)	0.1%	0.0%	0.2%	1.0%	2.1%	1.7%
Real Average Hourly Earnings	0.1%	-0.2%	0.0%	-0.4%	-6.7%	3.2%

Source: U.S. Department of Labor