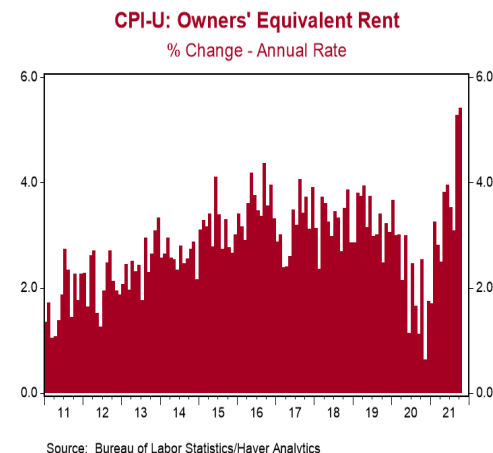
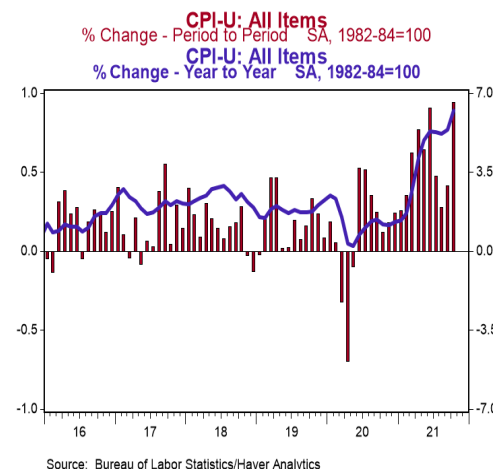


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October CPI

- The Consumer Price Index (CPI) soared 0.9% in October, well above the consensus expected +0.6%. The CPI is up 6.2% from a year ago.
- Energy prices increased 4.8% in October, while food prices increased 0.9%. The “core” CPI, which excludes food and energy, rose 0.6% in October, above the consensus expected +0.4%. Core prices are up 4.6% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – declined 0.5% in October and are down 1.2% in the past year. Real average weekly earnings are down 1.6% in the past year.

Implications: Consumer prices continued to accelerate in October, rising at the fastest pace for any month in more than a decade and pushing the 12-month increase to 6.2%, the largest since 1990. Inflation is clearly a problem and the Federal Reserve’s claim that it’s “transitory” looks more and more ridiculous each month. This is what happens when the M2 measure of the money supply is up 38% since COVID started, well above the pre-COVID trend. Inflation in October was broad-based but led by energy, housing rents, vehicles, and food. Energy prices rose 4.8%, including a 6.1% increase in gas prices. Meanwhile, housing rents rose 0.4% (rents for both actual tenants and the rental value of owner-occupied homes). Rents are important to watch because we expect large gains in this category now that a national eviction moratorium has ended and it makes up more than 30% of the overall CPI. In addition, vehicle prices rose steeply for both new and used vehicles (1.4% and 2.5%, respectively), with ongoing supply-chain issues being the obvious culprit. Last, food prices rose 0.9% with food at home up 1.0%. Stripping out the volatile food and energy components, “core” prices still rose 0.6% in October and are up 4.6% in the past year, which is also a multi-decade high. It’s important to recognize the inflation experienced today is not merely a rebound from the steep price declines in 2020 when COVID first hit the US; consumer prices are up at a 4.1% annual rate since February 2020 (which was pre-COVID) and core prices are up 3.3%. The current economic environment does not just warrant tapering, but rate hikes. And while inflation was a key factor pushing the Fed last week to announce the start of tapering asset purchases, what matters most for the economy – and markets – is when the Fed will lift the Federal Funds rates. Unfortunately, that is likely to be a long way off. In other news this morning, initial unemployment claims fell 4,000 to 267,000. Continuing claims rose 59,000 to 2.160 million. These figures are consistent with robust job growth in November.



CPI - U	Oct-21	Sep-21	Aug-21	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	0.9%	0.4%	0.3%	6.7%	7.6%	6.2%
Ex Food & Energy	0.6%	0.2%	0.1%	3.8%	5.9%	4.6%
Ex Energy	0.6%	0.3%	0.1%	4.6%	6.3%	4.7%
Energy	4.8%	1.3%	2.0%	37.1%	24.5%	30.0%
Food	0.9%	0.9%	0.4%	9.3%	8.7%	5.3%
Housing	0.7%	0.5%	0.4%	6.7%	5.9%	4.5%
Owners Equivalent Rent	0.4%	0.4%	0.3%	4.6%	4.2%	3.1%
New Vehicles	1.4%	1.3%	1.2%	16.7%	20.0%	9.8%
Medical Care	0.5%	0.0%	0.2%	2.9%	1.6%	1.3%
Services (Excluding Energy Services)	0.4%	0.2%	0.0%	2.8%	3.6%	3.2%
Real Average Hourly Earnings	-0.5%	0.2%	0.1%	-1.1%	-2.1%	-1.2%

Source: U.S. Department of Labor