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Data Watch

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SEPTEMBER CPI

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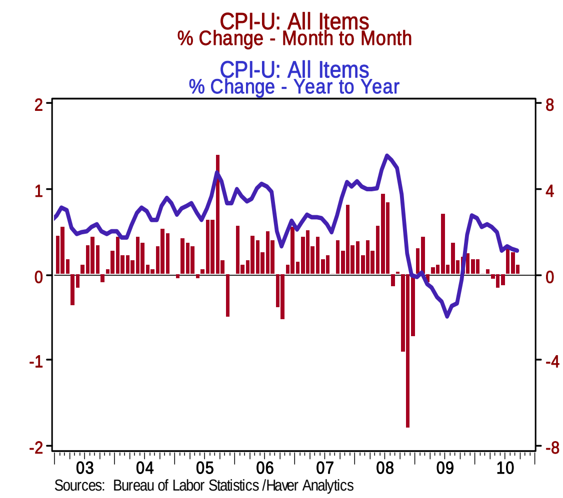
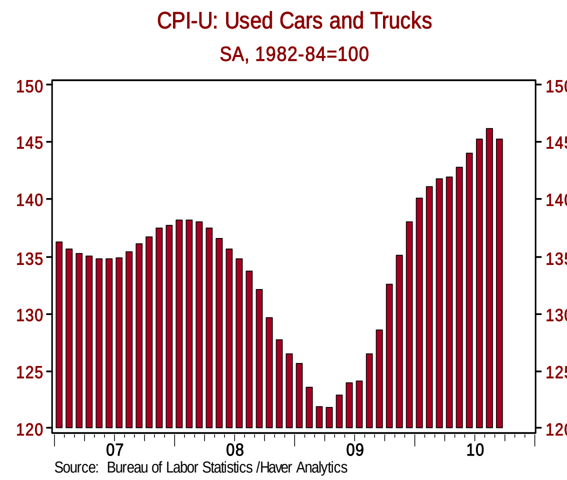
- The Consumer Price Index (CPI) increased 0.1% in September, coming in slightly below the consensus expected increase of 0.2%. The CPI is up 1.1% versus a year ago.
- "Cash" inflation (which excludes the government's estimate of what a homeowner would charge himself for rent) was up 0.1% in September and is up 1.5% in the past year.
- Most of the increase in the CPI in September can be attributed to energy prices, which increased 0.7%. Food prices were up 0.3%. Excluding food and energy, the "core" CPI was unchanged in September, below the 0.1% increase the consensus expected. Core prices are up 0.8% versus last year.
- Real average hourly earnings – the cash earnings of production workers, adjusted for inflation – fell 0.1% in September but are up at a 1.2% annual rate in the past six months. Due to an increase in work hours, real *weekly* earnings are up at a 2.3% annual rate in the past six months.

Implications: Today's report on consumer prices again shows no signs of deflation. Consumer prices are now up for three straight months at a 2.7% annual rate. Like last month, most of the gain was due to energy prices. Given higher oil prices again so far in October, look for another increase in the CPI next month. "Core" prices, which exclude food and energy, were unchanged in September. Despite rising inflation in the last three months, consumer prices are up only 1.1% in the past year while core prices are up only 0.8%. So, although it is impossible to make the case that we are suffering deflation, inflation has not yet become a serious problem either. However, the linkage between monetary policy and inflation is a long one, taking at least a year, possibly two. It was not until 16 months ago that the US economy emerged from a recession where nominal GDP growth – real GDP growth plus inflation – was negative. So it was only then when the policy of, essentially, zero percent interest rates became loose. Now that the economy is growing consistently and prices are rising, Fed policy is getting looser by the month, even without any additional round of "quantitative easing."





CPI - U *All Data Seasonally Adjusted*	Sep-10	Aug-10	Jul-10	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.1%**	0.3%	0.3%	2.7%	0.6%	1.1%
Ex Food & Energy	**0.0%**	0.0%	0.1%	0.7%	1.0%	0.8%
Ex Energy	**0.0%**	0.1%	0.1%	0.9%	1.0%	0.9%
Energy	**0.7%**	2.3%	2.6%	24.5%	-3.8%	3.8%
Food and Beverages	**0.3%**	0.1%	0.0%	1.7%	1.2%	1.4%
Housing	**-0.1%**	0.0%	0.1%	0.4%	-0.1%	-0.3%
Owners Equivalent Rent	**0.0%**	0.0%	0.1%	0.5%	0.4%	-0.1%
New Vehicles	**0.1%**	0.3%	0.1%	2.2%	1.3%	2.1%
Medical Care	**0.6%**	0.2%	-0.1%	3.2%	2.8%	3.4%
Services (Excluding Energy Services)	**0.1%**	0.0%	0.1%	0.9%	1.4%	0.8%
Real Average Weekly Earnings	**-0.1%**	0.1%	-0.2%	-0.8%	1.2%	0.5%

Source: U.S. Department of Labor