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# September CPI

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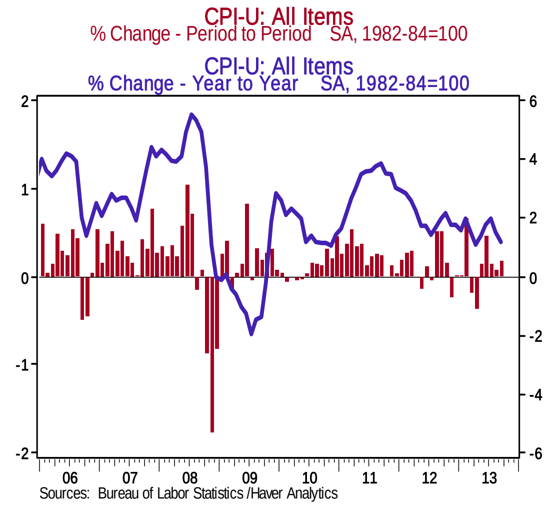
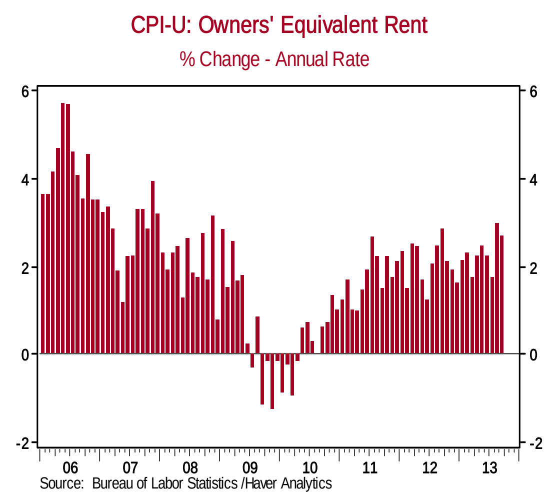
- The Consumer Price Index (CPI) increased 0.2% in September, exactly as the consensus expected. The CPI is up 1.2% versus a year ago.
- "Cash" inflation (which excludes the government's estimate of what homeowners would charge themselves for rent) increased 0.2% in September and is up 0.9% in the past year.
- The gain in the CPI in September was led by energy and rent. Energy rose 0.8%, while rent (including homeowners' equivalent rent) rose 0.2%. Food prices were unchanged. The "core" CPI, which excludes food and energy, was up 0.1% in September, slightly below the consensus expected rise of 0.2%. Core prices are up 1.7% versus a year ago.
- Real average hourly earnings – the cash earnings of all employees, adjusted for inflation – were flat in September, and are up 0.9% in the past year. Real *weekly* earnings are also up 0.9% in the past year.

**Implications**: The Federal Reserve is comfortable with today's inflation report. Consumer prices rose a consensus expected 0.2% overall and only 0.1% excluding food and energy. Energy and rent led the gains. Compared to a year ago, overall consumer prices are up 1.2% while core prices are up 1.7%. Neither of these figures sets off alarm bells. Instead, they suggest the Fed's preferred measure of inflation, the PCE deflator (which usually runs a ¼ point below the overall CPI) will remain below the Fed's target of 2%. We don't expect this to last. Inflation bottomed in April when it was up only 1.1% from the prior year, and we expect it will be noticeably higher a year from now. Recent figures underscore a slight acceleration in inflation, with the overall CPI up at a 1.7% annual rate in the past three months. However, for the Fed, the key measure of inflation is its own forecast of future inflation. So, even if inflation moves higher, as long as the Fed projects the rise to be temporary it will not react to that inflation alone by raising short-term interest rates. The Fed is more focused on the labor market and, we believe, is willing to let inflation exceed its long-term target of 2% for a prolonged period of time in order to get the unemployment rate down. In other news this morning, the ADP Employment index, which measures private-sector payrolls, was up 130,000 in October. As a result, our models for the official report (out Friday November 8) now forecast payroll gains of 90,000 nonfarm and 135,000 private. Not bad at all considering the partial government shutdown during the survey period. We expect payroll gains to rebound sharply in November.




| CPI - U<br>*All Data Seasonally Adjusted* | Sep-13 | Aug-13 | Jul-13 | 3-mo % Ch. annualized | 6-mo % Ch. annualized | Yr to Yr % Change |
|---|---|---|---|---|---|---|
| ***Consumer Price Index*** | **0.2%** | 0.1% | 0.2% | 1.7% | 1.4% | 1.2% |
| ***Ex Food & Energy*** | **0.1%** | 0.1% | 0.2% | 1.6% | 1.6% | 1.7% |
| ***Ex Energy*** | **0.1%** | 0.1% | 0.2% | 1.6% | 1.5% | 1.7% |
| ***Energy*** | **0.8%** | -0.3% | 0.2% | 3.2% | 0.2% | -3.1% |
| ***Food and Beverages*** | **0.0%** | 0.1% | 0.2% | 1.3% | 1.2% | 1.4% |
| ***Housing*** | **0.3%** | 0.1% | 0.0% | 1.6% | 2.2% | 2.2% |
| ***Owners Equivalent Rent*** | **0.2%** | 0.2% | 0.1% | 2.5% | 2.4% | 2.2% |
| ***New Vehicles*** | **0.2%** | 0.0% | 0.1% | 1.1% | 1.7% | 1.2% |
| ***Medical Care*** | **0.3%** | 0.6% | 0.2% | 4.4% | 2.8% | 2.4% |
| ***Services (Excluding Energy Services)*** | **0.2%** | 0.2% | 0.2% | 2.3% | 2.1% | 2.4% |
| ***Real Average Hourly Earnings*** | **0.0%** | 0.2% | -0.2% | 0.0% | 0.8% | 0.9% |

*Source: U.S. Department of Labor*