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September CPI

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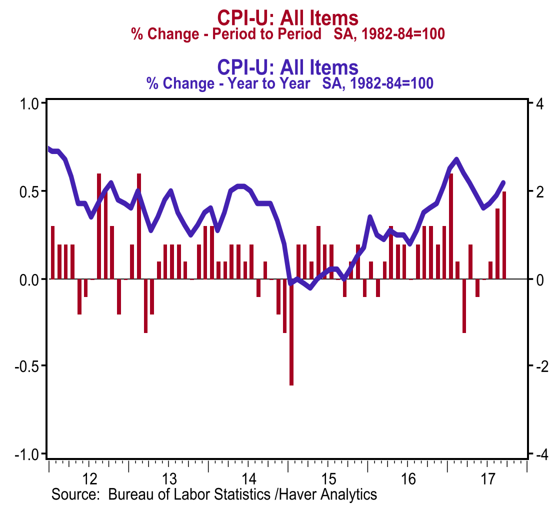
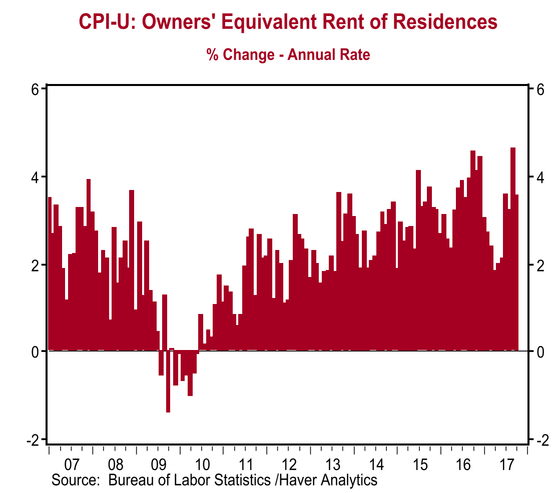
- The Consumer Price Index (CPI) rose 0.5% in September, coming in slightly below the consensus expected increase of 0.6%. The CPI is up 2.2% from a year ago.
- "Cash" inflation (which excludes the government's estimate of what homeowners would charge themselves for rent) rose 0.6% in September and is up 1.9% in the past year.
- Energy prices rose 6.1% in September, while food prices rose 0.1%. The "core" CPI, which excludes food and energy, increased 0.1% in September, below the consensus expected 0.2%. Core prices are up 1.7% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – declined 0.1% in September but are up 0.7% in the past year. Real average weekly earnings are up 0.6% in the past year.





Implications: Prices surged 0.5% in September as Hurricanes Harvey and Irma caused a 13.1% jump in gasoline prices. While it will take another month or two to get a clean reading on consumer prices outside the storm impacts, a look at "core" prices – which excludes food and energy – shows the usual suspects continue to push prices higher. Housing costs rose 0.2% in September and are up 2.8% in the past year, while auto insurance prices rose 0.5% in September and are up 8.2% in the past year. In the last twelve months, consumer prices are up 2.2%. This was boosted by the September storm impacts, but "core" prices, which are less impacted by the temporary factors, are up 1.7% in the past year. That is only slightly below the Federal Reserve's 2% target, but, as yesterday's report on producer prices shows, a continued pickup in prices is in the pipeline. And the trend in prices has been in place for a while now. For the twelve months ending September of 2015, overall consumer prices were unchanged, while the twelve months ended September of last year showed a 1.5% rise. Taking this into consideration shows why the Fed has reason for confidence that the inflation picture is finally firming around their target and provides further justification for a December rate hike. Markets are currently pricing in a roughly 75% chance for a hike in December, with just one to two hikes priced in for 2018. It is yet to be seen who will take over the Fed Chair position from Janet Yellen, but the two leading candidates at the moment – Jerome Powell and Kevin Warsh - are both likely to continue a slow but steady rate hike cycle, with three to four hikes likely if economic data continue to show modest but healthy growth in the year ahead. The most disappointing news in today's report is that real average hourly earnings declined 0.1% in September. However, these earnings are up 0.7% over the past year and data from the Bureau of Labor Statistics employment report show overall worker earnings (which takes into account both wage gains and increased hours worked) are rising at around a 4% annual rate. Along with healthy household balance sheets, consumers have room to increase spending.

CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	Sep-17	Aug-17	Jul-17	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.5%**	0.4%	0.1%	4.3%	2.2%	2.2%
Ex Food & Energy	**0.1%**	0.2%	0.1%	2.0%	1.5%	1.7%
Ex Energy	**0.1%**	0.2%	0.1%	1.9%	1.5%	1.6%
Energy	**6.1%**	2.8%	-0.1%	40.9%	11.4%	10.1%
Food	**0.1%**	0.1%	0.2%	1.3%	1.3%	1.2%
Housing	**0.2%**	0.4%	0.1%	2.6%	2.7%	2.8%
Owners Equivalent Rent	**0.2%**	0.3%	0.3%	3.5%	3.2%	3.2%
New Vehicles	**-0.4%**	0.0%	-0.5%	-3.5%	-3.1%	-1.0%
Medical Care	**-0.1%**	0.1%	0.4%	2.0%	1.4%	1.6%
Services (Excluding Energy Services)	**0.2%**	0.4%	0.2%	3.2%	2.6%	2.6%
Real Average Hourly Earnings	**-0.1%**	-0.2%	0.3%	0.0%	1.1%	0.7%

Source: U.S. Department of Labor