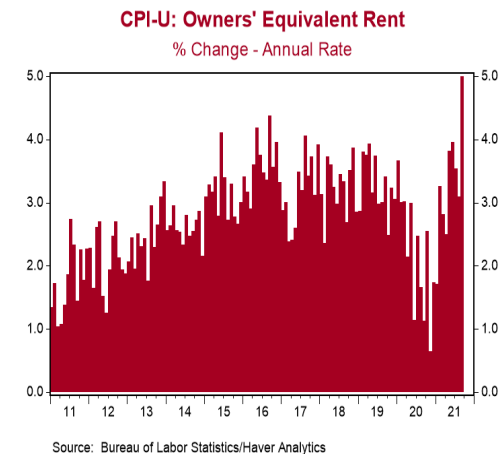
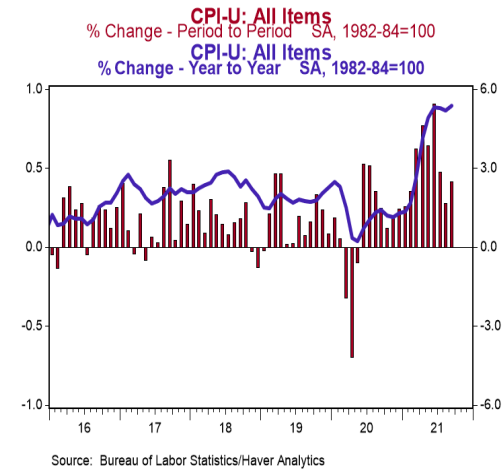


September CPI

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist
Andrew Opdyke, CFA – Senior Economist

- The Consumer Price Index (CPI) increased 0.4% in September, exceeding the consensus expected +0.3%. The CPI is up 5.4% from a year ago.
- Energy prices increased 1.3% in September, while food prices increased 0.9%. The “core” CPI, which excludes food and energy, rose 0.2% in September, matching consensus expectations. Core prices are up 4.0% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – increased 0.2% in September but are down 0.8% in the past year. Real average weekly earnings are down 0.8% in the past year.

Implications: Inflation is looking less transitory with each passing month. Consumer prices increased 0.4% in September, faster than the consensus expected 0.3%, and are now up 5.4% versus a year ago, the largest yearly increase since 2008. It’s important to recognize that this isn’t merely a rebound from the steep price declines in early 2020 when COVID first hit the US; consumer prices are up at a 3.7% annual rate since February 2020, which was pre-COVID. The volatile energy and food categories led prices higher in September, rising 1.3% and 0.9%, respectively for the month. Meanwhile, core prices, which exclude energy and food, were up 0.2%. That may seem relatively tame, but the details of core prices suggest reasons to be concerned. Airfares fell 6.4% in September and remain very low compared to pre-COVID levels. If airfares had remained unchanged for the month, core prices would have been up 0.3% for the month, not 0.2%. Airfares are 23% below pre-COVID levels, so expect to see some large price gains in that category in the next couple of years. Meanwhile, rents rose rapidly in September, in what is likely to be harbinger of future rapid gains in the year ahead now that there is no longer a national moratorium on evictions. Rents for actual tenants rose 0.5% in September, the fastest gain for any month in the past twenty years; owners equivalent rent (what homeowners would pay if they rented their homes) increased 0.4%, the most in fifteen years. Keep in mind that these two categories of rent make up more than 30% of the overall CPI, and about 40% of the core CPI. Given the huge run-up in home prices under COVID as well as the typical lags between home price increases and rent growth, expect these categories to remain a tailwind for higher inflation in coming years. Notably, new vehicle prices continued to surge in September, up 1.3% for the month and up 8.7% in the past year. The hope that supply chain issues would fade after a few months has proven drastically wrong, as recent delta-driven shutdowns in Asian country factories and ports, as well as large build-ups in American ports have only made matters worse. Ultimately, however, inflation depends on money. The Federal Reserve has been too loose and now consumers are going to pay for it.



CPI - U <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Sep-21	Aug-21	Jul-21	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.4%	0.3%	0.5%	4.7%	7.2%	5.4%
Ex Food & Energy	0.2%	0.1%	0.3%	2.7%	6.6%	4.0%
Ex Energy	0.3%	0.1%	0.4%	3.6%	6.7%	4.1%
Energy	1.3%	2.0%	1.6%	21.4%	13.2%	24.8%
Food	0.9%	0.4%	0.7%	8.5%	7.5%	4.6%
Housing	0.5%	0.4%	0.4%	5.4%	5.5%	3.9%
Owners Equivalent Rent	0.4%	0.3%	0.3%	4.0%	3.7%	2.9%
New Vehicles	1.3%	1.2%	1.7%	18.3%	17.9%	8.7%
Medical Care	0.0%	0.2%	0.3%	1.9%	0.7%	0.4%
Services (Excluding Energy Services)	0.2%	0.0%	0.3%	2.0%	3.8%	2.9%
Real Average Hourly Earnings	0.2%	0.1%	-0.1%	0.7%	-1.2%	-0.8%

Source: U.S. Department of Labor